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**REDESIGN OF THE NEGATIVE ACTION
QUALITY CONTROL SYSTEM IN THE
FOOD STAMP PROGRAM**

Final Feasibility Report

Contract No. 53-3198-8-36

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January 1989

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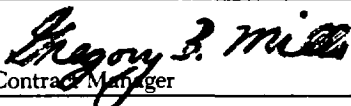


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TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY.....	i
CHAPTER ONE: INTRODUCTION.....	1
1.1 ERROR MEASUREMENT AND THE MONITORING OF NEGATIVE ACTIONS.....	1
1.2 DEFINITION OF TERMS.....	3
1.3 OBJECTIVES OF THE STUDY.....	5
1.4 ORIGINS OF THE STUDY.....	8
1.5 ORGANIZATION OF THIS REPORT.....	15
CHAPTER TWO: DESCRIPTION OF THE CURRENT NEGATIVE ACTION QC SYSTEM.....	16
2.1 REVIEWABLE UNIVERSE.....	17
2.2 SAMPLING NEGATIVE ACTIONS.....	24
2.3 DETERMINING ERROR IN NEGATIVE ACTION REVIEWS...	37
2.4 NEGATIVE CASE ERROR RATE.....	41
2.5 FEDERAL RE-REVIEW.....	41
2.6 EVOLUTION OF QUALITY CONTROL FOR NEGATIVE ACTIONS.....	44
CHAPTER THREE: APPROACHES TO MEASURING NONPAYMENT ERROR.....	50
3.1 BASIC FEATURES OF THE CURRENT SYSTEM FOR MEASURING PAYMENT ERROR.....	50
3.2 APPLYING THE LOGIC OF ACTIVE-CASE QUALITY CONTROL TO NEGATIVE ACTIONS.....	57
3.3 FUNDAMENTAL DESIGN CONSIDERATIONS.....	70
3.4 COMMON COMPONENTS OF A MODIFIED SYSTEM FOR MEASURING NEGATIVE ACTION ERROR.....	73
CHAPTER FOUR: ALTERNATIVE MEASUREMENT SYSTEMS AND THEIR FEASIBILITY.....	87
4.1 EVALUATION CRITERIA.....	87
4.2 ALTERNATIVE DESIGNS.....	91
4.3 PRELIMINARY FEASIBILITY ASSESSMENT.....	106

TABLE OF CONTENTS
(continued)

REFERENCES..... 111

APPENDIX A: FNS HANDBOOK 310, THE FOOD STAMP PROGRAM QUALITY
CONTROL REVIEW HANDBOOK, CHAPTER 13--NEGATIVE CASE
RECORD REVIEWS

APPENDIX B: FNS HANDBOOK 315, THE FEDERAL QUALITY CONTROL
VALIDATION REVIEW HANDBOOK, CHAPTER 3--VALIDATION
REVIEW, NEGATIVE CASES

LIST OF EXHIBITS

		<u>Page</u>
EXHIBIT 1.1	GAO Findings for Negative Cases Selected for Review in Illinois and Maryland.....	13
EXHIBIT 2.1	Review Status of Different Types of Administrative Actions.....	18
EXHIBIT 2.2	Monthly Negative Cases and Minimum Annual Sample Sizes, by State, Fiscal Year 1987.....	25
EXHIBIT 2.3	Loss Rate in Negative Case Samples, by State, Fiscal Year 1987.....	28
EXHIBIT 2.4	Loss Rate in Active Case Samples, by State, Fiscal Year 1987.....	30
EXHIBIT 2.5	Relationship Between Active and Negative Caseloads, by State, Fiscal Year 1987.....	35
EXHIBIT 2.6	Food Stamp Quality Control Activity, Negative Cases, Fiscal Years 1975 to 1986.....	45
EXHIBIT 3.1	Minimum Number of Negative Cases to be Reviewed, in Relation to a State's Average Monthly Number of Negative Actions.....	79
EXHIBIT 3.2	Minimum Number of Negative Cases in the Federal Re-Review Sample, in Relation to the State's Annual Negative Case Sample Size.....	80
EXHIBIT 4.1	Completed Negative Case Reviews, by Reason for Denial or Termination, Selected States, Fiscal Year 1987.....	96
EXHIBIT 4.2	Alternative Approaches to Procedural Compliance.....	99
EXHIBIT 4.3	Alternative Approaches to Verification Standards.....	101
EXHIBIT 4.4	Alternative Approaches to Error Duration.....	104
EXHIBIT 4.5	Alternative Measurement Systems.....	105

EXECUTIVE SUMMARY

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In considering modifications to the negative action QC system, it is important first to identify the features of a "nonpayment error rate" that would constitute the logical counterpart of the current "payment error rate" for active cases. (The latter measure, as redefined in the Emergency Hunger Prevention Act of 1988, expresses both overpayments and underpayments to active cases as a percentage of total payments to active cases.) The desired features of the nonpayment error rate, especially those not currently reflected in the negative case error rate, establish the focus for redesign of the sampling, review, and estimation procedures in the current negative action QC system. Most importantly, the following four features of the payment error rate distinguish it from the current negative case error rate:

It is a dollar-based error measure. The desired nonpayment error rate would thus express negative action error in terms of the dollar benefit amounts that should have been certified to denied or terminated households. In contrast, the current negative case error rate is a "case-based" measure, expressing negative cases in error as a percentage of total negative cases, without regard to the dollar magnitude of error.

It is an outcome-focused error measure. The desired nonpayment error rate would thus measure negative action error with respect to the accuracy of the outcome of the agency's certification action, not with respect to the appropriateness of the procedures used by the agency in making its decision and taking its action. In contrast, the current negative case error rate is a "procedurally-focused" measure; agency failure to follow proper procedure may render the action in error, even if the household is ineligible and thus no benefit loss occurs.

It is an investigation-determined error measure. The desired nonpayment error rate would thus reflect the accuracy of the certification decision based on verified case circumstances, as determined by an investigation that meets specific standards of evidence to be obtained from the client or collateral sources. In contrast, the current negative case error rate is based largely on the documentation contained in the case record; client or collateral contact is undertaken only at the discretion of the reviewer.

It is a duration-related error measure. The desired nonpayment error rate would thus account for the fact that a negative action error, once it occurs, may extend in time beyond the first affected month of benefits. In contrast, the current negative case error rate reflects error only in the first affected month.

These four issues must be addressed in the design of the sampling, review, and estimation procedures that would comprise a modified negative action QC system, if the error measures for active cases and negative cases are to become more comparable.

The above considerations require some modifications that can be viewed as necessary components of any alternative system. For example, an outcome-focused error measure requires that error be determined without regard to agency compliance with procedural requirements for timely action or advance notice. Any such administrative deficiencies could be recorded, but with no bearing on the error finding. For actions found in error, the review process would include a benefit computation, to establish the dollar amount of the error.

While having these modified features in common, the alternative systems that might be considered for a pilot test differ from each other on three central design issues:

the treatment of matters of procedural compliance on the part of the client, in determining whether an action is subject to review, whether the household is entitled to a benefit, and thus whether the action is in error;

the stringency of the verification standards by which the reviewer determines whether the household is eligible in terms of household circumstances, such as income and resources, and in terms of procedural compliance; and

the manner in which error duration is addressed, in accounting for the possible continuation of error beyond the first affected month of benefits.

On each of these three issues, two alternative approaches are considered--a "current" treatment and a "modified" treatment.

On matters of client procedural compliance, the current treatment considers the negative action correct if the household fails to meet a procedural condition of eligibility, such as failure to provide verification or submit a monthly report. The modified treatment, in keeping with the objective of an outcome-based error measure, would consider the negative action correct only if the procedurally noncompliant household is also circumstantially ineligible. Importantly, the error determination would thus be made without regard to the client's compliance with procedural requirements. The error measure would therefore become a broader measure of program access, not simply certification accuracy, indicating the degree to which benefits are denied or terminated to circumstantially eligible households, even where the agency is justified in disqualifying households for procedural reasons.

As to verification standards, the current treatment would adopt the limited standard of documentation now used by QC reviewers to support a negative action. This means that information contained in the casefile, or statements from the client, need not be further verified. The modified treatment would use the verification standards now applied in active case reviews. On items of circumstantial eligibility, such as household income or resources, the determination of error for both active and negative cases would thus be subject to the same standard of supporting evidence.

With respect to error duration, the current treatment would count as error only the amount of benefit loss found to have occurred in the first effective month of an incorrect denial or termination. The modified treatment

would extend the error measurement through the third effective month of any incorrect action. This approach, while still somewhat arbitrary, would more closely approximate the accounting of error among active cases, whereby the payment error rate fully reflects the duration of errors.

These various approaches combine to form eight distinct alternative systems that could be included in a pilot test. The options span a range that is deliberately wide, even encompassing some that raise clear operational concerns. This is done so that policy judgments may ultimately be based on an expansive body of empirical evidence from the pilot test. It is important to note at the outset that the consideration here of any identified option does not constitute an endorsement by either Abt Associates or the Food and Nutrition Service of the particular set of policy judgments embodied in that option.

Among the identified options, the one most resembling the present system would simply adopt the current treatment on all three central design issues. The current sampling, review, and estimation procedures would be altered only as minimally required to estimate a nonpayment error measure that is meaningfully comparable to the payment error rate.

At the other extreme, the most ambitious option--attaining the highest degree of measurement comparability--would significantly alter current review procedures. Client procedural noncompliance would not, by itself, render the negative action correct. For the action to be considered correct, the reviewer would need to establish that the household was ineligible on circumstantial grounds, such as excess income or resources. On such circumstantial issues, the applicable standards of verification would be those now used in active case reviews. In order to address the duration of error, the

reviewer would examine household status over a three-month period of potentially affected benefits.

Any option to be seriously considered as a system of error measurement must ultimately satisfy a number of evaluation criteria, the most important of which are as follows:

measurement comparability--To what extent is the resulting nonpayment error rate comparable to the payment error rate in being dollar-based, outcome-focused, investigation-determined, and duration-related? Is the nonpayment error rate an indicator that can be meaningfully summed with the payment error rate, to form a composite measure of certification error?

statistical quality--Is the error measure biased as a result of client noncooperation and the resulting noncompletion of case reviews? Will the measurement system yield an error rate with acceptable precision? Does the error measure allow valid State-to-State comparisons?

operational feasibility--Are the staffing requirements acceptable? Do States have access to the kinds of data necessary to construct appropriate sampling frames? Are the verification standards reasonable, given such concerns as the possible need for the client to authorize any release of information from collateral sources? Is the review process one that respects the rights of privacy of the client?

Beyond these objective concerns pertaining to error measurement, broader judgments must be exercised over the appropriateness of each option as a basis for evaluating State administrative performance and establishing accountability for the implementation of program policies and procedures. For instance, does the proposed system define error in such a way as to give proper importance to federally-mandated procedural requirements upon both the agency and the client? Any alternatives to be included in the pilot test must be acceptable in these respects.

As to either statistical quality or operational feasibility, any assessment of alternative systems should be made ultimately on empirical grounds, using data of the type to be collected in the pilot test. Any preliminary assessment of these issues must be based on judgments informed by available data. Measurement comparability, on the other hand, pertains to the intrinsic design of each system and can be assessed on an a priori basis.

The immediate question is whether any of the identified alternative systems can be rejected from further consideration. With respect to measurement comparability, we consider each of these options as yielding a meaningful measure of nonpayment error. Each option achieves a different degree of comparability to the payment error rate, and some options might be preferable to others in addressing a broader range of administrative concerns. However, each is defensible in its approach to error measurement, and we see no a priori reason to exclude any from consideration on the basis of this criterion.

On matters of statistical quality and operational feasibility, available data offer limited guidance. Even the least ambitious option expands the review process enough to raise concerns of nonresponse bias and administrative cost. These concerns are further amplified under the more ambitious options, especially those four that adopt the modified treatment of client procedural compliance. Those options call for some review of the household's circumstantial eligibility for all negative cases, even those denied or terminated for failure to meet a procedural requirement (currently about one-half of all reviewable negative actions). Such "circumstantial review" would determine whether the household meets all substantive conditions of participation with respect to resources, income, and nonfinancial criteria,

even if procedurally disqualified. This approach could be viewed as necessary to mirror the treatment of client procedural compliance in the active case QC system and thus is included in four of the eight identified options.

Other, more fundamental objections can be raised against the four options that incorporate the modified treatment on matters of procedural compliance. These alternatives do not constitute an acceptable system of administrative accountability, as States would be vulnerable to an error finding even in instances where the agency acts properly upon client failure to meet procedural conditions of eligibility, some of which are mandated in federal law and regulation.

The remaining four options are recommended for inclusion in the pilot test. These alternative systems encompass defensible approaches to the issues of verification standards and error duration, as well as to the matter of procedural compliance. The pilot test will enable the statistical quality and operational feasibility of these options to be evaluated under realistic administrative conditions.

CHAPTER ONE

INTRODUCTION

1.1 ERROR MEASUREMENT AND THE MONITORING OF NEGATIVE ACTIONS

To monitor the accuracy of the certification process by which households participate in the Food Stamp Program, the Food Stamp Act requires that States conduct quality control (QC) reviews. Households that participate in the program--active cases--are randomly sampled and reviewed to determine whether they are eligible for assistance and are certified to receive the correct monthly coupon allotment. In addition, those households experiencing a denial or termination of assistance--negative cases--are randomly sampled and reviewed to determine the correctness of the State's "negative action." The error rates estimated annually by State for both active cases and negative cases are used by the federal government as the basis for establishing fiscal liabilities for high-error States and offering enhanced funding to low-error States.

The federal policies in food stamp quality control can be separated into two categories. The first is the measurement system, for determining the rates of error by State among both active and negative cases. These provisions address the following issues:

how are cases to be selected for State review?

how is the State review to be conducted for each sampled case?

how are the State's selected cases to be subsampled for federal re-review?

how is the federal re-review to be conducted for each subsampled case?

how are the findings of the State reviews and the federal re-reviews to be used in computing error rates?

The second category of QC policies can be termed the corrective system, which addresses the following concerns:

what is the error rate threshold above which a State faces fiscal liabilities?

what is the error rate target below which a State qualifies for enhanced funding?

how are the amounts of fiscal liabilities or enhanced funding computed? how are the amounts collected or paid?

under what circumstances will liabilities be waived?

in what situations is a State required to submit a corrective action plan? what must be contained in such a plan?

As explained later, these federal policies--attaching specific consequences to each State's measured error rates--have now been altered through the recently-passed Emergency Hunger Prevention Act of 1988 (P.L. 100-435).

This feasibility report examines the measurement system as it pertains to negative actions in the Food Stamp Program. This report does not analyze the policy choices regarding the consequences to States that should be attached to the measured error rates for negative actions. These latter policy choices are to be addressed in a report that the Food and Nutrition Service will submit to the Congress in July 1990, as mandated in the Emergency Hunger Prevention Act.

One should also note at the outset that this report does not address a number of important issues of household nonparticipation that, while theoretically related to negative action error, are simply beyond the scope of

any conceivable negative action quality control system. One is the extent to which eligible households never apply for initial certification. For instance, households may be uninformed or misinformed about the program. Or, clients may be discouraged from contacting the administering agency by inconvenient office hours, lengthy waiting times, excessive procedural requirements, or other burdensome aspects of the application process itself. While agencies might reasonably be held accountable in such situations, it would be both conceptually difficult and prohibitively expensive to obtain reliable performance measures. For instance, one would need to distinguish the "discouraged nonapplicants" from those who would deliberately choose not to participate even if fully informed and faced with a minimal degree of procedural burden. Because the relevant population includes all nonparticipating households whose circumstances make them eligible for the program, a periodic national household survey would seemingly be required.

Equally problematic is the situation in which a client enters the welfare office, but is "informally denied" on the basis of preliminary questioning, prior to submitting a formal application. Pre-intake screening of this kind may serve to turn away eligible clients. However, because this initial agency-client contact is typically not recorded, it would be extremely difficult to monitor the extent of any improper agency action through an ongoing quality control system.

1.2 DEFINITION OF TERMS

Before discussing the objectives of the study, it seems appropriate to explain the terminology to be used in this report. The term "payment error," as now redefined in the Hunger Prevention Act, will refer to the sum of the following two error categories:

"overpayment error"--the extent to which the agency-determined certification amounts for active cases overstate the amounts that such households should receive (i.e., issuances to ineligible households and overissuances to eligible households); and

"underpayment error"--the extent to which the agency-determined certification amounts for active cases understate the amounts that such households should receive (i.e., underissuances to eligible households).*

In current practice, these two types of error are measured in both case-based and dollar-based terms. The principal error measures are dollar-based percentages, the "overpayment error rate" and the "underpayment error rate." As now formally defined in law and as estimated by State for each fiscal year, these error rates express the corresponding annual error amounts as percentages of total annual coupon allotments issued to active cases. Effective in Fiscal Year 1986, States are now subject to fiscal liabilities if the sum of their overpayment and underpayment error rates--the newly-defined "payment error rate"--exceeds a national standard equalling the lowest previously-attained national payment error rate plus one percentage point. The amount of fiscal liability is computed by multiplying the State's annual issuances by the percentage-point difference between the State's payment error rate and the national standard.

The terms negative action error or "nonpayment error," as used in this study, refer to the benefit amount that households were entitled to receive, but were not certified to receive, as the result of an agency's negative action. In principle, nonpayment error can be expressed in either case-based or dollar-based terms. The only currently-estimated measure is the

*Note that, as previously defined in statute and regulation, the term "payment error" included only overpayment error, but not underpayment error. This study thus adopts the newly revised definition.

"negative case error rate," indicating the percentage of negative cases that are in error.

Payment error and nonpayment error together comprise "certification error," the broadest concept of incorrect payment. States can now qualify for a higher federal matching rate on their administrative costs in the program (up from the normal 50 percent to as high as 60 percent) if their payment error rate is below 6 percent, and if their negative case error rate is below the previous year's national average. Nonpayment error is not a criterion for fiscal liabilities.

1.3 OBJECTIVES OF THE STUDY

This study examines the feasibility of estimating a State-by-State measure of nonpayment error that is comparable to current measures of payment error. The study's focus is thus the measurement of nonpayment error--not the consequences to States of such error. As will be detailed later, the currently-estimated negative case error rate is fundamentally different from the overpayment or underpayment error rates computed for active cases. In brief, the differences are as follows:

The negative case error rate indicates the percentage of annual negative actions that are in error, not the annual dollar amount of error as a percentage of a dollar-based denominator. There is no attempt to measure the benefit amount lost by households. In contrast, the payment errors among active cases are measured in dollar terms.

Over the course of an annual measurement period, the basic sampling approach for negative cases serves to undercount the number of months during which eligible cases do not participate due to erroneous negative actions. In particular, negative cases are subject to sampling only for the initial month of nonparticipation associated with the agency's action. If the action is in error and leads an eligible household to lose benefits over several months, there is no accounting for the subsequent months of

nonpayment error. In contrast, an active case will enter the sampling universe during all participating months during the fiscal year, with no undercounting of potential error months.

The required level of reviewer effort in a negative case review is much more limited than in an active case review, with client or collateral contact undertaken (by telephone) only at the discretion of the reviewer. To the extent that household circumstantial information enters into the agency's decision, such information is assumed to be correct as it appears in the case record, under minimal standards of documentation. In the active case review, there are specific detailed standards of verification for each item of eligibility. A personal client interview and verification through collateral contacts are required for active cases.

The determination of error among negative cases is based importantly on the agency's compliance with procedural requirements. If the agency fails to afford due process to the client, with respect to advance notice and timely decision, the action will be considered in error even if proper observance of administrative procedure would arguably not have altered the outcome of the agency's decision. Thus, some negative action errors--as currently measured--involve no benefit loss to the household. In contrast, the purely procedural aspects of agency action have no bearing on the error findings for active cases.

The compliance with procedural requirements on the part of the client, as well as the agency, is central to the determination of error for negative cases. Client failure to fulfill procedural responsibilities renders the negative case ineligible and thus renders the negative action correct (or in some situations renders it not subject to review, as with failure to apply for recertification). In contrast, an active case is not automatically considered ineligible if the client fails unintentionally to meet a procedural obligation (such as filing a monthly report).

Federal re-review of a State's reported error findings for negative cases is required only for those States potentially eligible for enhanced funding. All other States are subject to a required re-review every other year. Some federal regional offices conduct these validation reviews every year in their States, while not required to do so. In contrast, the State-reported overpayment and underpayment error rates are subject to federal re-review annually in every State.

The limited nature of the negative action QC system reflects the recognized difficulty of conducting a quality control review when the household is not participating in the program. Such households are difficult to locate; once located, they may be unwilling to cooperate. Unlike the situation with an active case, the possible loss of one's current benefit (for refusal to cooperate) does not provide an inducement for the client to cooperate. Compounding these issues is the fact that for some households denied at initial certification, there will be nothing in the case record other than the signed application.

In addition, the negative action QC system could be viewed as one of several mechanisms through which client service is monitored and client interests are protected. Other mechanisms include the process of appeals and fair hearings and--for the Food Stamp Program, the Management Evaluation system. In contrast, the active case QC system could be seen as the one monitoring device by which the "taxpayer's interests" could be protected.

With these considerations in mind, why is it desirable to seek greater comparability in the measurement of nonpayment error and payment error? Without such comparability, and thus without the ability to hold States equally accountable for committing differing types of certification errors, there is arguably an incentive for States to give more attention to reducing those errors that are more systematically measured and that carry more serious consequences. Any lesser priority attached to nonpayment error through the QC system raises the risk that caseworkers will consciously err on the side of denying or terminating benefits to households whose eligibility status is uncertain. Operationally, this means applying policy rules in a deliberately stringent fashion--the "deny when in doubt" strategy. Without

balanced incentives, States might also be encouraged to formally adopt administrative procedures, in the interest of reducing overpayment, that establish client reporting requirements burdensome enough that some eligible households will fail to qualify. This has been alleged to promote caseload "churning," the frequent movement on and off the program of eligible households who find it difficult to meet procedural requirements on a continuing basis. The associated cycle of termination and reapplication is seen as needlessly time-consuming for both agency and client.

The desire to establish balanced incentives to reduce all forms of error was expressed recently by the House Agriculture Committee in reporting out its version of the Emergency Hunger Prevention Act. In explaining its action to expand the basis for fiscal liabilities to include both overpayment and underpayment error, the committee report stated the following principle:*

Failure to provide the full benefit to which a household is entitled is not less erroneous than providing too much. State agencies should be accountable for both. To avoid even the appearance of an unbalanced emphasis on one type of error at the expense of another, the quality control system should treat all types of payment errors similarly.

This same logic now leads the Food and Nutrition Service to examine whether the QC measurement system can be improved by placing nonpayment error on an equal footing with overpayment and underpayment error.

1.4 ORIGINS OF THE STUDY

The origins of this study, which began in July 1988, can be traced back to a series of reports submitted to the Congress in 1987. These

*U.S. House of Representatives, Committee on Agriculture, "Emergency Hunger Relief Act of 1988," Rept. 100-28, Part 1, August 5, 1988, p. 34.

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analyses--by the Food and Nutrition Service (FNS) of the Department of Agriculture, the National Academy of Sciences (NAS), and the General Accounting Office (GAO)--all highlighted the limitations of the current system for measuring negative action error. The FNS and NAS reports were major studies

are definitionally consistent--and that might allow a joint error standard to be established--without making major changes to current sampling and review procedures for negative cases. On the basis of this assessment, the report concluded that the desire to ensure accountability for all forms of certification error could be pursued through separate monitoring systems for active and negative cases. Congress, if it wished to attach financial consequences to negative case action error, could adopt as the basis for fiscal liabilities some variant of the two-part criterion by which States now qualify for enhanced funding--a payment error rate below 6 percent and a negative case error rate below the previous year's national average.

1987 Report to Congress by the National Academy of Sciences. The NAS report was mandated by the Congress as an independent assessment of the food stamp quality control system.* The study was carried out by a specially-formed Panel on Quality Control of Family Assistance Programs, which also prepared a subsequent report on quality control in Aid to Families with Dependent Children (AFDC) and Medicaid. The panel made recommendations not only on the measurement of error, but also on the design of error standards and financial consequences and on the appropriate division of federal and State responsibilities. The following discussion, as with the above summary of the FNS report, addresses only those recommendations having implications for the federal measurement of negative action error.

The NAS panel recommended that State performance be evaluated according to a dollar-based measure of negative error, along with three

*Affholter, Dennis P. and Kramer, Fredrica D. (eds.), Rethinking Quality Control: A New System for the Food Stamp Program, Washington, DC: National Academy Press, 1987.

separately estimated dollar-based measures of error among active cases: issuances to ineligible households, overissuances to eligible households, and underissuances to eligible households. The panel stated that:

Underissuances and negative case errors deserve a place with overissuances in an official payment inaccuracy measure, since one clear objective of the Food Stamp Program is the accurate provision of benefits to those who are eligible and who apply. The panel agrees with the use of dollar-based rather than case-based measures: the dollar values indicate the magnitude of the inaccuracy for each inaccurate case. (p. 151)

The proposed denominator for all four error components would be the total value of issuances actually made. (A weighted average of the four error rates would become the "official" error rate for determining fiscal liabilities and enhanced funding.) The panel noted that its choice of a denominator, while a "simpler statistic," was "somewhat flawed conceptually" by not including the dollar value of underpayment and nonpayment errors (p. 153). The panel justified its decision on two grounds. First, the preferred denominator is an "unknown quantity," since underpayment and nonpayment errors "cannot be precisely determined for the entire caseload." Second, because these two kinds of error are considered to be small in proportion to total issuances, the "empirical consequences of using the simple statistic will be of small magnitude."

For the purposes of this current study, it is important to note that the NAS panel did not address the specific design of the measurement system by which a dollar-based estimate of negative action error would be obtained in each State.

October 1987 Report to Congress by the General Accounting Office.

The GAO study examined the accuracy of the State-reported negative case error rates in Illinois and Maryland for Fiscal Year 1985.* The subsample of 316 cases reviewed by GAO field staff included not only cases for which State reviews were completed, but also selected cases that were dropped from a State's sample (either as ones not subject to review or as ones subject to review, but for which a review could not be completed). Exhibit 1.1 shows the distribution of the GAO subsample with respect to the State-reported and GAO-determined findings.

The basic finding of the GAO analysis was that State-reported error rates substantially understate the properly-measured negative case error rate. Of the fifty-five cases that GAO found in error, the two States had reported errors for only five. This substantial difference was offset somewhat by the fact that the States reported four cases in error that GAO considered as dropped cases. While Illinois reported an error rate of 9.1 percent in Fiscal Year 1985, GAO found the error rate to be 22.5 percent (with a 95 percent confidence interval ranging from 16.1 to 28.9 percent). For Maryland, where the State-reported error rate was 1.9 percent, the GAO-determined error rate for the comparable period was 12.4 percent (ranging from 5.6 to 19.2 percent).

GAO attributed these differences to the failure of State reviewers to detect error in the following kinds of situations:

where the agency applied program policies incorrectly in determining the client ineligible;

*U.S. General Accounting Office, Food Stamp Program: Evaluation of Improper Denial or Termination Error Rates, GAO/RCED-88-12, October 1987.

Exhibit 1.1

GAO FINDINGS FOR NEGATIVE CASES SELECTED FOR REVIEW
IN ILLINOIS AND MARYLAND

<u>State-reported finding</u>	<u>Cases in GAO subsample</u>	<u>GAO-determined finding:</u>		
		<u>Dropped case</u>	<u>Correct case</u>	<u>Error case</u>
ILLINOIS				
Dropped case	64	53	8	3
Correct case	102	5	72	25
Error case	7	2	0	5
Total	173	60	80	33
MARYLAND				
Dropped case	59	50	5	4
Correct case	82	0	64	18
Error case	2	2	0	0
Total	143	52	69	22
TOTAL				
Dropped case	123	103	13	7
Correct case	184	5	136	43
Error case	9	4	0	5
Total	316	112	149	55

where the agency provided inadequate documentation of the basis for its negative action; and

where the agency allowed insufficient time for the client to complete the application process, prior to denial.

The GAO analysis concluded that of the 55 cases found in error, the client incurred a benefit loss in 23 cases. In the remaining cases, either the agency's error was procedurally-related and caused no loss of benefits or there was insufficient information to establish whether a benefit loss had occurred, since the household may have otherwise been ineligible.

In addition, GAO found that States often misinterpret QC policy in deciding whether a selected case can be dropped from the sample. Of the 123 subsample cases that the States had dropped, GAO found that 20 should not have been dropped. Conversely, of the 193 subsample cases that the States had reviewed, GAO found that 9 should have been dropped. The GAO study also noted that neither State had fully complied with the federal requirements as to the timing of completion of its case reviews, with Maryland never completing its required number of sample reviews.

With respect to improving the measurement of negative action error, GAO recommended that FNS annually re-review the State negative case findings in all States, not simply in those that may qualify for enhanced funding. A subsequent re-review by FNS of State-reported error rates in twenty-one States supported the GAO conclusion that the reported findings understate the properly-measured negative case error rate. FNS responded to the GAO study by indicating that each State would be subject to re-review once in either 1988 or 1989. FNS also indicated that it would undertake its own study--the present project--to examine alternative ways of measuring negative action error.

1.5 ORGANIZATION OF THIS REPORT

This feasibility report has been prepared to enable systematic consideration of alternative approaches to redesign of the procedures for measuring negative action error in the Food Stamp Program. Chapter Two examines the current negative action quality control system, detailing the sampling, review, and estimation procedures by which the present negative case error rate is measured. Chapter Three discusses the measurement issues that must be addressed if certification error is to be measured comparably for both active and negative cases. Attention is focused on a series of central design choices in specifying alternative systems for measuring nonpayment error. Chapter Four then develops a number of options for modifying the negative action quality control system and makes recommendations on the inclusion of options in a pilot test.

CHAPTER TWO

DESCRIPTION OF THE CURRENT NEGATIVE ACTION QC SYSTEM

Before attempting to design alternative negative action QC systems, it is important to understand the system that exists. By examining the rationale for the specific features of the current system, and by noting its limitations or inconsistencies, we set the context within which to consider alternative systems.

This chapter reviews the major elements of the current system. It presents the logic that guides the determination of whether cases should be subject to review, and offers examples of cases whose review status is subject to interpretation. It provides an overview of the sampling and review procedures that are federally required, and indicates where these requirements may not be fully implemented in practice.* Also presented is a description of how the negative case error rate is measured, including the role of the federal validation review. Finally, a general historical review of key negative review issues is offered.

*This information is derived from a series of visits that Abt Associates' project staff made to FNS at its National Office, and the following Regional Offices and States: the Northeast, Midwest, and Mountain Plains Regional Offices, and the States of Connecticut, Michigan and Iowa. In these discussions, it became clear that some States are out of compliance with particular sampling or review policies. FNS is aware of these situations; the National Office and Regional Office staff are working with the States to correct them.

2.1 REVIEWABLE UNIVERSE

Actions Subject to Review. As shown in Appendix A, Chapter 13 of the Food Stamp Quality Control Review Handbook (FNS Handbook 310) defines negative actions as occurring in two general categories:

denial of benefits; or

termination of benefits, leading to a break in participation as a result of deliberate agency action.

Exhibit 2.1 indicates the range of possible household- or agency-initiated actions, and identifies those subject to review under current FNS policy.

The quality control system exists to monitor accuracy of determinations made by eligibility workers on behalf of State agencies. If a household never submits an application for food stamps, or withdraws an application for initial certification or recertification, the agency takes no negative action. Neither instance is subject to review.

On the other hand, denials are agency actions that are subject to review. When a household submits an application for initial certification or recertification, the agency is responsible for determining whether household circumstances meet the criteria for eligibility. In the process, the household must satisfy all procedural requirements for eligibility--that is, keep the interview appointment(s) and provide the information and documentation requested by the agency. If for circumstantial or procedural reasons the agency determines that the applicant is ineligible, the agency sends the household a Notice of Denial. All such actions are included in the sampling universe.

Exhibit 2.1

REVIEW STATUS OF DIFFERENT TYPES OF ADMINISTRATIVE ACTIONS

Case Category:

Review Status:

Non-Applicants

The household does not submit an application for initial certification

not subject to review

The household withdraws its application for initial certification or recertification prior to the agency's determination

not subject to review

Denials

The agency determines, on the basis of a household's application for initial certification or recertification, that household is ineligible for either circumstantial or procedural reasons--Notice of Denial is sent (and, if the determination occurs as the result of a shortened certification period, a prior Notice of Expiration has been sent)

subject to review*

Terminations

The agency determines that the participating household is ineligible for either circumstantial or procedural reasons and that the household's certification will terminate prior to the end of its assigned certification period--Notice of Adverse Action is sent

subject to review*

Expirations

The household does not submit an application for recertification, and the case is closed at the end of its assigned certification period--prior Notice of Expiration has been sent

not subject to review

The agency determines that the certification period is to be shortened, the household does not submit an application for recertification, and the case is closed at the end of its shortened certification period--prior Notice of Expiration has been sent

subject to review*

*Unless the action is followed by a reapplication and the household receives regular benefits within the negative sample month.

Terminations, the second category of agency actions that are subject to review, occur when participating households are determined ineligible prior to the end of their assigned certification period. In order to be reviewable, the termination must result from a deliberate agency action (i.e., a Notice of Adverse Action has been sent to the household), and there must be a break in participation (i.e., the household has received no regular benefits within the sample month*).

Terminations occur for both circumstantial and procedural reasons. If a household's circumstances change significantly in the course of its certification period (e.g., any increase in income greater than \$25), the household must report this change to the agency. The agency then redetermines the household's eligibility. If the changed circumstances render the household ineligible, a Notice of Adverse Action is sent and the case is terminated. Procedural terminations occur most often to those households that are required, according to State policy, to submit monthly reports. If a household assigned this requirement does not submit its report by the designated monthly deadline, the agency also sends a Notice of Adverse Action. If the client does not respond to the notice in a timely manner, the household is terminated from the program.**

The final category of actions are expirations. A Notice of Expiration (NOE) is sent to a household at one of two points:

*"Regular benefits" are defined to exclude restored benefits.

**In such terminations, the QC reviewer must establish that the monthly report was not submitted as required and that the Notice of Adverse Action was sent. There is no requirement that the reviewer establish that the household was correctly classified as a monthly reporting household according to federal and State policies.

when the certification period assigned at initial application or recertification is nearly ended, or

when the agency, with reason to believe that a household's circumstances have changed, decides to conduct a recertification earlier than previously scheduled.

The NOE indicates that continued participation in the Food Stamp Program is contingent upon applying for recertification. When this notice is sent to a household at the end of its assigned certification period and the household does not respond, the resulting closure is not subject to review. The assumption is that the household chooses to discontinue participation; the QC reviewer has no agency action to review.

On the other hand, when a household's shortened certification period expires because the client does not respond to the NOE, the action is subject to review. The QC reviewer must establish that the agency was justified in shortening the certification period and that the NOE was sent.

Actions Not Subject to Review. The following categories of denied, terminated, or expired cases are not subject to review:

Cases for which a quality control review might disrupt an ongoing investigation--cases under investigation for an intentional program violation (e.g., fraud). (This does not apply to cases requesting a fair hearing, which are subject to review.)

Cases exempt from normal certification procedures--cases denied food stamps during a disaster certification authorized by FNS.

Cases for which a negative action is only pending (e.g., a household receiving a notice of pending status but not actually denied participation) or cases whose negative action is reversed in time to prevent an interruption in benefits (e.g., cases terminated for failure to file a monthly report, but then reinstated within the normal processing standard when the report is later filed; or applicants mistakenly denied benefits, but then approved when the agency discovers the error and reverses the decision).

Cases whose nonpayment results from client failure to apply for certification or recertification (that is, cases that withdraw their application, or cases closed at expiration of their assigned certification period).

Cases listed in error (e.g., active cases in a negative frame) or cases dropped as a result of correction for oversampling.

FNS Handbook 310 lists two other types of cases not subject to review:

Households terminated through a notice of denial or adverse action, but which continue to receive food stamp benefits (although they do not have a fair hearing pending).

Households that experience an interruption in benefits due to a computer malfunction or error, but not as a result of a deliberate action by the State agency to terminate or suspend benefits.

The last example involves issuance rather than certification. That is, if an automated issuance system malfunctions and a household receives its benefits even one month late, such a household remains in the active case file because the agency has taken no deliberate negative action.

Note that a reduction in benefits is not considered a negative action; such a household is still receiving benefits and is included in the active quality control sampling frame.

Determining Which Actions Are Subject to Review. In applying these rules to specific examples, it is generally clear which cases will not be subject to review, and which rules apply to guide this decision. However, for some cases, ambiguity exists as to which rules apply. Consequently, they are likely to receive inconsistent treatment.

The most troublesome issue results from the requirement that a break in participation must occur for a termination to be subject to review. As previously mentioned, a "break in participation" means that a household receives no regular benefits within the sample month. (In effect, this is to avoid a household's entering both the active and negative sample frames in the same month.) However, the result is that two households under virtually identical circumstances may be treated very differently. Consider the following example:

Household A is improperly terminated in December. It receives a Notice of Adverse Action effective for January. On January 31, the household reapplies and receives prorated benefits for the last day of January and a full allotment for February.

Household B is also improperly terminated in December and receives the same Notice of Adverse Action effective for January. It does not reapply for benefits until February 1. It receives a full allotment for February.

Under current policy, the termination for Household A is not subject to review because it receives a benefit for the sample month of February, even though the household lost benefits for nearly one month. The termination for Household B, however, is subject to review. This inconsistency causes confusion for States. In current practice, the termination for Household A will be reviewed in some States but not in others. Household B, when it is sampled, is always subject to review.

Consider another case example in which current policy is ambiguous:

A food stamp household moves from one county to another within the same State. The household is terminated in one project area, but immediately applies for and receives food stamps in another. No lapse in benefits occurs.

This should seemingly be interpreted as a negative action that is not subject to review, because benefits to the household are not interrupted. Confusion exists, however, because two different project areas are involved. Although the household's benefits do not lapse, the office that terminates the household is no longer providing the benefits. If the case is sampled, it may or may not be reviewed, depending upon whether the reviewer has information that the household remains an active case elsewhere in the State.

Similar confusion exists if the household moves from one State to another. The first State is no longer providing benefits to the household and may not know that the household is receiving benefits elsewhere when the case is reviewed. Therefore the State would logically conclude that the household is subject to review.*

Consider yet another example:

Households A and B live together, receiving food stamp benefits as separate households. The agency decides that they should participate as one household. It terminates Household A and adds all its members to Household B.

In this instance, although the members of household A continue to receive food stamps, the household unit is terminated.** This difference causes confusion for reviewers, leading only some to consider the termination subject to review.

*Note, as will be discussed later, that the review in this instance would simply require evidence in the case file that the household had moved out of State. A written or signed note from the head of household would be acceptable.

**It is not known whether the benefits for the combined household are less than the summed benefits for the two separate households. However, a reduction in a household's benefits is not subject to review.

In a similar example, a Public Assistance (PA) food stamp household is terminated as a PA case and is recertified to receive food stamps only, with no lapse in food stamp benefits. Opinions differ as to whether that PA termination should be subject to review.

2.2 SAMPLING NEGATIVE ACTIONS

States are required to submit quality control sampling plans on an annual basis, the content of which is delineated in FNS regulations. The plan must account for two quality control samples--active cases and negative cases. The size of each sample is based on the State agency's corresponding projection of average monthly caseload during the annual review period. The minimum number of negative cases to be selected and reviewed in one year is computed as follows:

Average Monthly Negative Actions (N)	Minimum Annual Sample Size (n)
5,000 and over	800
500 to 4,999	$150 + 0.144(N - 500)$
Under 500	150

For Fiscal Year 1987, the minimum annual sample sizes for negative cases are shown by State in Exhibit 2.2.

The Sample Frame. Each month, State agencies select the cases to be reviewed. The selection for active and negative cases occurs separately. In both samples, a case must be reviewed each time it is selected. That is, if a household is selected more than once in the same monthly sample as the result of separate reviewable actions, it must be reviewed each time.

Exhibit 2.2**MONTHLY NEGATIVE CASES AND MINIMUM ANNUAL SAMPLE SIZES, BY STATE,
FISCAL YEAR 1987**

<u>Region and State</u>	<u>Average monthly negative cases</u>	<u>Minimum annual sample size</u>
NORTHEAST		
Connecticut	1,237	222
Maine	1,849	397
Massachusetts	2,742	473
New Hampshire	857	150
New York	22,450	800
Rhode Island	1,537	321
Vermont	1,496	293
MID-ATLANTIC		
Delaware	721	185
District of Columbia	708	180
Maryland	3,521	524
New Jersey	15,000	800
Pennsylvania	3,024	514
Virginia	8,504	800
Virgin Islands	160	150
West Virginia	6,807	800
SOUTHEAST		
Alabama	13,927	860
Florida	9,735	800
Georgia	9,328	800
Kentucky	8,497	800
Mississippi	5,270	800
North Carolina	11,522	800
South Carolina	4,906	392
Tennessee	8,716	800
MIDWEST		
Illinois	24,650	800
Indiana	5,809	800
Michigan	27,827	800
Minnesota	6,576	800
Ohio	14,004	800
Wisconsin	9,741	800
SOUTHWEST		
Arkansas	7,400	800
Louisiana	10,443	800
New Mexico	4,850	417
Oklahoma	8,300	800
Texas	22,186	800

Exhibit 2.2
(continued)

**MONTHLY NEGATIVE CASES AND MINIMUM ANNUAL SAMPLE SIZES, BY STATE,
FISCAL YEAR 1987**

<u>Region and State</u>	<u>Average monthly negative cases</u>	<u>Minimum annual sample size</u>
MOUNTAIN PLAINS		
Colorado	3,829	637
Iowa	6,568	800
Kansas	5,584	739
Missouri	5,823	654
Montana	1,305	260
Nebraska	2,420	353
North Dakota	1,442	286
South Dakota	1,103	236
Utah	5,042	798
Wyoming	1,425	270
WESTERN		
Alaska	1,833	366
Arizona	6,766	800
California	55,034	800
Guam	179	150
Hawaii	1,283	263
Idaho	2,164	390
Nevada	2,859	489
Oregon	3,558	650
Washington	7,928	800
NATIONAL TOTALS	400,445	30,849

Source: Summary report provided by the Food and Nutrition Service, Program Accountability Division. Figures taken from State reporting form FNS-247, lines 24 and 25.

Underpinning must be completed during the annual review period.

Exhibit 2.3

LOSS RATE IN NEGATIVE CASE SAMPLES, BY STATE, FISCAL YEAR 1987

Region and State	Selected Cases	Cases Not Subject to Review (NSR)	Reviews Not Completed	NSR Rate (%) ^a	Non-Completion Rate (%) ^b	Loss Rate (%) ^c
NORTHEAST						
Connecticut	373	93	20	24.9	7.1	30.3
Maine	396	21	3	5.3	0.8	6.1
Massachusetts	569	38	22	6.7	4.1	10.5
New Hampshire	231	5	2	2.2	0.9	3.0
New York	861	354	30	41.1	5.9	44.6
Rhode Island	321	34	2	10.6	0.7	11.2
Vermont	304	11	0	3.6	0.0	3.6
MID-ATLANTIC						
Delaware	193	6	3	3.1	1.6	4.7
Dist. of Columbia	269	51	6	19.0	2.8	21.2
Maryland	686	79	147	11.5	24.2	32.9
New Jersey	652	226	7	34.7	1.6	35.7
Pennsylvania	1,029	259	6	25.2	0.8	25.8
Virginia	1,039	134	8	12.9	0.9	13.7
Virgin Islands	228	19	1	8.3	0.5	8.8
West Virginia	779	136	3	17.5	0.5	17.8
SOUTHEAST						
Alabama	1,393	338	0	24.3	0.0	24.3
Florida	877	19	3	2.2	0.3	2.5
Georgia	1,492	240	9	16.1	0.7	16.7
Kentucky	845	72	15	8.5	1.9	10.3
Mississippi	847	25	0	3.0	0.0	3.0
North Carolina	889	91	0	10.2	0.0	10.2
South Carolina	388	11	4	2.8	1.1	3.9
Tennessee	903	16	13	1.8	1.5	3.2
MIDWEST						
Illinois	1,271	235	12	18.5	1.2	19.4
Indiana	895	76	5	8.5	0.6	9.1
Michigan	1,241	72	5	5.8	0.4	6.2
Minnesota	1,007	217	2	21.5	0.3	21.7
Ohio	925	121	7	13.1	0.9	13.8
Wisconsin	838	58	3	6.9	0.4	7.3
SOUTHWEST						
Arkansas	858	13	2	1.5	0.2	1.7
Louisiana	1,011	157	40	15.5	4.7	19.5
New Mexico	738	89	3	12.1	0.5	12.5
Oklahoma	701	204	0	29.1	0.0	29.1
Texas	889	30	7	3.4	0.8	4.2

Exhibit 2.3
(continued)

LOSS RATE IN NEGATIVE CASE SAMPLES, BY STATE, FISCAL YEAR 1987

Region and State	Selected Cases	Cases Not Subject to Review (NSR)	Reviews Not Completed	NSR Rate (%) ^a	Non- Completion Rate (%) ^b	Loss Rate (%) ^c
MOUNTAIN PLAINS						
Colorado	676	34	12	5.0	1.9	6.8
Iowa	1,188	306	3	25.8	0.3	26.0
Kansas	972	187	0	19.2	0.0	19.2
Missouri	831	147	0	17.7	0.0	17.7
Montana	284	28	2	9.9	0.8	10.6
Nebraska	465	91	0	19.6	0.0	19.6
North Dakota	359	71	0	19.8	0.0	19.8
South Dakota	298	12	0	4.0	0.0	4.0
Utah	847	192	1	22.7	0.2	22.8
Wyoming	324	37	0	11.4	0.0	11.4
WESTERN						
Alaska	414	47	1	11.4	0.3	11.6
Arizona	886	75	11	8.5	1.4	9.7
California	1,543	703	23	45.6	2.7	47.1
Guam	207	46	0	22.2	0.0	22.2
Hawaii	326	54	0	16.6	0.0	16.6
Idaho	446	58	6	13.0	1.5	14.3
Nevada	533	25	1	4.7	0.2	4.9
Oregon	689	48	3	7.0	0.5	7.4
Washington	944	101	1	10.7	0.1	10.8
U.S. Total	38,170	5,812	454	15.2	1.4	16.4

Source: U.S. Department of Agriculture, Food and Nutrition Service, unpublished tabulation.

- Notes:
- a. Cases not subject to review as a percentage of selected cases.
 - b. Reviews not completed as a percentage of cases subject to review (selected cases less cases not subject to review).
 - c. Cases not subject to review plus reviews not completed as a percentage of selected cases.

Exhibit 2.4

LOSS RATE IN ACTIVE CASE SAMPLES, BY STATE, FISCAL YEAR 1987

Region and State	Selected Cases	Cases Not Subject to Review (NSR)	Reviews Not Completed	NSR Rate (%)	Non- Completion Rate (%)	Loss Rate (%)
NORTHEAST						
Connecticut	962	56	7	5.8	0.8	6.5
Maine	967	33	3	3.4	0.3	3.7
Massachusetts	1,306	53	48	4.1	3.8	7.7
New Hampshire	441	16	0	3.6	0.0	3.6
New York	1,297	70	56	5.4	4.6	9.7
Rhode Island	1,086	50	28	4.6	2.7	7.2
Vermont	414	10	2	2.4	0.5	2.9
MID-ATLANTIC						
Delaware	355	14	5	3.9	1.5	5.4
Dist. of Columbia	642	37	8	5.8	1.3	7.0
Maryland	1,373	59	70	4.3	5.3	9.4
New Jersey	2,543	170	135	6.7	5.7	12.0
Pennsylvania	1,280	57	33	4.5	2.7	7.0
Virginia	1,286	49	24	3.8	1.9	5.7
Virgin Islands	308	0	5	0.0	1.6	1.6
West Virginia	1,271	27	31	2.1	2.5	4.6
SOUTHEAST						
Alabama	1,931	32	21	1.7	1.1	2.7
Florida	2,548	68	58	2.7	2.3	4.9
Georgia	1,284	55	19	4.3	1.5	5.8
Kentucky	1,750	50	61	2.9	3.6	6.3
Mississippi	1,416	162	13	11.4	1.0	12.4
North Carolina	1,222	18	37	1.5	3.1	4.5
South Carolina	1,354	95	33	7.0	2.6	9.5
Tennessee	1,329	18	32	1.4	2.4	3.8
MIDWEST						
Illinois	2,873	106	77	3.7	2.8	6.4
Indiana	1,300	77	16	5.9	1.3	7.2
Michigan	2,475	74	115	3.0	4.8	7.6
Minnesota	1,372	58	53	4.2	4.0	8.1
Ohio	1,302	57	51	4.4	4.1	8.3
Wisconsin	2,285	121	49	5.3	2.3	7.4
SOUTHWEST						
Arkansas	1,328	27	14	2.0	1.1	3.1
Louisiana	1,266	30	22	2.4	1.8	4.1
New Mexico	1,255	21	32	1.7	2.6	4.2
Oklahoma	1,469	48	14	NA	1.0	NA
Texas	1,320	57	22	4.3	1.7	6.0

Exhibit 2.4
(continued)

LOSS RATE IN ACTIVE CASE SAMPLES, BY STATE, FISCAL YEAR 1987

Region and State	Selected Cases	Cases Not Subject to Review (NSR)	Reviews Not Completed	NSR Rate (%) ^a	Non- Completion Rate (%) ^b	Loss Rate (%) ^c
MOUNTAIN PLAINS						
Colorado	1,472	113	30	7.7	2.2	9.7
Iowa	1,317	33	59	2.5	4.6	7.0
Kansas	1,011	34	4	3.4	0.4	3.8
Missouri	2,540	96	25	3.8	1.0	4.8
Montana	1,038	139	45	13.4	5.0	17.7
Nebraska	809	39	9	4.8	1.2	5.9
North Dakota	378	5	2	1.3	0.5	1.9
South Dakota	646	24	7	3.7	1.1	4.8
Utah	675	50	5	7.4	0.8	8.1
Wyoming	345	16	18	4.6	5.5	9.9
WESTERN						
Alaska	354	16	6	4.5	1.8	6.2
Arizona	2,693	244	106	9.1	4.3	13.0
California	2,608	220	95	8.4	4.0	12.1
Guam	331	11	0	3.3	0.0	3.3
Hawaii	807	42	7	5.2	0.9	6.1
Idaho	999	168	76	16.8	9.1	24.4
Nevada	638	90	9	14.1	1.6	15.5
Oregon	2,681	143	103	5.3	4.1	9.2
Washington	2,598	165	49	6.4	2.0	8.2
U.S. Total	74,329	4,112	2,553	5.0	2.8	7.7

Source: U.S. Department of Agriculture, Food and Nutrition Service, unpublished tabulations.

- Notes:
- a. Cases not subject to review as a percentage of selected cases.
 - b. Reviews not completed as a percentage of cases subject to review (selected cases less cases not subject to review).
 - c. Cases not subject to review plus reviews not completed as a percentage of selected cases.

Oklahoma's noncompletion rate is based on non-demonstration cases.

U.S. total rates exclude Oklahoma.

NA = Not available.

The **effective month** is the first month in which benefits are affected. In the above scenario, had the household been determined eligible, it would have received prorated benefits for the last ten days of April. Thus, April is the effective month.

The **sample month** is the effective month.

The findings for any case review are to be attributed to the sample month, regardless of when the case is selected or when the review actually occurs. Thus, if the denied applicant in the above scenario is pulled for review in June and the review occurs in June or July, the findings should be reported for April.

Variations in Implementation. There are three aspects of the sampling process that differ importantly across States: whether the sample frame is constructed by action date or effective month; whether all reviewable negative actions enter the sample frame; and whether review findings are assigned to the correct month. The following discusses the issues.

Federal regulations indicate that the negative sample frame should be based on households whose denial or termination was effective for the sample month (or effective month, defined above). Some States construct the negative sample frame according to the action date. This is typical in those States in which only the action date appears on the automated data base and is easily identifiable. If a State's automated database does not include the date of application, the effective month for initial certification is not known until the casefile is examined. Likewise, when a household is automatically terminated for not submitting a monthly report, or for submitting a change that makes the household ineligible, the effective date is the first day of the first month in which no benefits are received. This date is not necessarily useful for any purpose other than pulling the negative sample, so

sampling by effective date is possible only if a State's automated system includes such a date.

Of utmost importance to FNS is that each State uses a consistent approach throughout the year in constructing the monthly sampling frame. If a State's automated system does not currently allow sampling by effective date, FNS will accept sampling by action date, as long as the same approach is used to pull each monthly sample throughout the fiscal year.

It is also apparent from regional and State discussions that some States do not sample cases that are closed at expiration of a shortened certification period. Many State databases do not distinguish these closures from normally-expiring certifications. Consequently, these States choose one of two options in constructing their sample frame:

- to include all expirations in the frame and then drop those associated with a normally-expiring certification; or

- to exclude all expirations in the frame and thus omit those associated with a shortened certification period.

Some evidence suggests that this problem might encompass more than those cases expiring after the certification period has been shortened. One major metropolitan area also excludes from its sample denials to PA cases. This results from the operating practices of this area's income maintenance centers, which tend to deny PA cases without exploring whether the household might be eligible for food stamps. The household is then referred to a separate "food stamp only" office, where a separate application must be filed. It also appears that this area's sample may under-represent denials for non-assistance food stamp cases.

More broadly, one possible source of clues to sampling defects is the observed variation among States in the ratio of monthly negative actions to monthly active cases. Exhibit 2.5 gives each State's average number of monthly active cases and average monthly number of negative actions in Fiscal Year 1987, and it also relates these to the number of households and to each other. The last column, negative cases per 100 active cases, shows considerable variation, from 0.8 in Pennsylvania to 19.7 in Alaska. It would be informative to consider more carefully how both the number of active cases and the number of negative actions relate to characteristics of the State's caseload and then to inquire into possible explanations for the variation.

Finally, there exists in practice an inconsistent definition of the sample month, which affects the reporting of review findings. Some States define the sample month as the month in which the action occurs, without regard to the timing of affected benefits. The following example helps illustrate why this can be problematic.

A household applies on July 20, is interviewed on August 2, and is denied on August 19 (the 30th day following the application). The action does not enter the sampling frame until August (or perhaps September), even though its effective date is July. In such a situation, three outcomes may occur:

- the State considers the case subject to review for the review month of July and assigns the findings to the sample month of July;

- the State considers the case subject to review for the review month of July and assigns the findings to the sample month of August or September; or

- the State considers the action not subject to review because its effective date does not correspond to the sample month.

Exhibit 2.5

RELATIONSHIP BETWEEN ACTIVE AND NEGATIVE CASELOADS, BY STATE, FISCAL YEAR 1987

	Total Population (Households)	Monthly Food Stamp Active Cases	Monthly Food Stamp Negative Cases	Active Cases Per 100 Households	Negative Cases Per 100 Households	Negative Cases Per 100 Active Cases
NORTHEAST						
Connecticut	1,189,000	41,601	1,237	3.5	0.1	3.0
Maine	447,000	40,629	1,849	9.1	0.4	4.6
Massachusetts	2,190,000	132,249	2,742	6.0	0.1	2.1
New Hampshire	391,000	8,819	857	2.3	0.2	9.7
New York	6,722,000	688,143	22,450	10.2	0.3	3.3
Rhode Island	369,000	25,727	1,537	7.0	0.4	6.0
Vermont	204,000	15,049	1,496	7.4	0.7	9.9
MID-ATLANTIC						
Delaware	238,000	10,682	721	4.5	0.3	6.7
Dist. of Columbia	248,000	24,553	708	9.9	0.3	2.9
Maryland	1,656,000	99,956	3,521	6.0	0.2	3.5
New Jersey	2,807,000	134,668	15,000	4.8	0.5	11.1
Pennsylvania	4,447,000	370,773	3,024	8.3	0.1	0.8
Virginia	2,171,000	126,689	8,504	5.8	0.4	6.7
Virgin Islands	32,000	6,716	160	21.0	0.5	2.4
West Virginia	707,000	89,337	6,807	12.6	1.0	7.6
SOUTHEAST						
Alabama	1,483,000	158,250	13,927	10.7	0.9	8.8
Florida	4,787,000	226,713	9,735	4.7	0.2	4.3
Georgia	2,258,000	174,185	9,328	7.7	0.4	5.4
Kentucky	1,366,000	172,833	8,497	12.7	0.6	4.9
Mississippi	909,000	153,093	5,270	16.8	0.6	3.4
North Carolina	2,390,000	157,925	11,522	6.6	0.5	7.3
South Carolina	1,199,000	97,091	4,906	8.1	0.4	5.1
Tennessee	1,820,000	181,355	8,716	10.0	0.5	4.8
MIDWEST						
Illinois	4,271,000	355,805	24,650	8.3	0.6	6.9
Indiana	2,049,000	105,366	5,809	5.1	0.3	5.5
Michigan	3,355,000	316,132	27,827	9.4	0.8	8.8
Minnesota	1,585,000	87,600	6,576	5.5	0.4	7.5
Ohio	4,035,000	450,637	14,004	11.2	0.3	3.1
Wisconsin	1,785,000	104,970	9,741	5.9	0.5	9.3
SOUTHWEST						
Arkansas	895,000	82,939	7,400	9.3	0.8	8.9
Louisiana	1,566,000	221,141	10,443	14.1	0.7	4.7
New Mexico	533,000	50,388	4,850	9.4	0.9	9.6
Oklahoma	1,244,000	54,999	8,300	4.4	0.7	15.1
Texas	5,960,000	451,794	22,186	7.6	0.4	4.9

Exhibit 2.5
(continued)

RELATIONSHIP BETWEEN ACTIVE AND NEGATIVE CASELOADS, BY STATE, FISCAL YEAR 1987

	Total Population (Households)	Monthly Food Stamp Active Cases	Monthly Food Stamp Negative Cases	Active Cases Per 100 Households	Negative Cases Per 100 Households	Negative Cases Per 100 Active Cases
MOUNTAIN PLAINS						
Colorado	1,255,000	68,429	3,829	5.5	0.3	5.6
Iowa	1,072,000	74,151	6,568	6.9	0.6	8.9
Kansas	943,000	44,209	5,584	4.7	0.6	12.6
Missouri	1,940,000	118,738	5,823	6.1	0.3	4.9
Montana	303,000	22,156	1,305	7.3	0.4	5.9
Nebraska	608,000	34,137	2,420	5.6	0.4	7.1
North Dakota	247,000	14,100	1,442	5.7	0.6	10.2
South Dakota	264,000	16,690	1,103	6.3	0.4	6.6
Utah	518,000	26,979	5,042	5.2	1.0	18.7
Wyoming	177,000	9,294	1,425	5.3	0.8	15.3
WESTERN						
Alaska	175,000	9,316	1,833	5.3	1.0	19.7
Arizona	1,240,000	60,409	6,766	4.9	0.5	11.2
California	10,076,000	514,399	55,034	5.1	0.5	10.7
Guam	30,000	3,787	179	12.6	0.6	4.7
Hawaii	345,000	31,875	1,283	9.2	0.4	4.0
Idaho	357,000	18,733	2,164	5.2	0.6	11.6
Nevada	397,000	15,207	2,859	3.8	0.7	18.8
Oregon	1,074,000	91,698	3,558	8.5	0.3	3.9
Washington	1,761,000	110,296	7,928	6.3	0.5	7.2
U.S. Total	90,090,000	6,708,410	400,445	7.4	0.4	6.0

Source: U.S. Department of Commerce, Bureau of the Census, press release CB88-56, April 5, 1988, and separately computed estimates for Guam and Virgin Islands. U.S. Department of Agriculture, Food and Nutrition Service, unpublished tabulations.

The first scenario is the outcome that follows current policy. This does not cause any action to be missed, and it does not allow State-to-State differences in data systems to intervene in the timing of reported findings. The second scenario, although not causing any actions to be missed, allows the vagaries of State data systems to determine the month to which the findings are assigned. In particular, this causes some arbitrary differences in the treatment of actions taken in the last months of a fiscal year. The last scenario is the most troublesome, as it causes some reviewable actions not to enter the sampling frame at all.

2.3 DETERMINING ERROR IN NEGATIVE ACTION REVIEWS

A quality control reviewer approaches the task of reviewing an active case much differently than a negative case action. With an active case, the reviewer must determine whether the household is actually eligible to receive food stamps in the sample month and, if so, the correct amount of the benefit allotment. In reviewing negative case actions, the reviewer has the much less burdensome task of determining that the documentation in the casefile supports the decision to deny or terminate food stamp benefits.

For a negative action to be considered correct, the reviewer must make the following determination:

that the action reflects a proper interpretation of program certification rules (e.g., that the appropriate computation of income or resources is made and that the appropriate dollar limit is applied);

that the case record adequately documents the case situation that causes the household to be considered ineligible (e.g., that the eligibility worker requests an item of information from the client by a particular date and that the household fails to respond); and

that the action conforms to the prescribed time frames for agency action (e.g., that a denial is not made prior to 30 days following the client's application) and that it complies with the requirements for client notification (e.g., that a Notice of Adverse Action is sent to a terminated case).

The following sections summarize the process described in FNS Handbook 310 through which the negative action quality control reviewer is to establish an agency action as correct or incorrect. The QC reviewer bears the "burden of proof" in establishing that an action is properly taken.

Review Date. In reviewing the casefile in a denial or termination, the QC reviewer first tries to establish the review date, the date of the State agency's decision to deny or terminate food stamp benefits. When this date is not documented clearly in the casefile, the reviewer is allowed to look for documents outside the file, including notices that might have been sent (automated or otherwise) informing a household of a change, or a Notice of Adverse Action.

In providing guidance to reviewers for determining the review date, FNS Handbook 310 indicates that it is the earliest date which can be documented in the casefile on which the agency based its decision. For example, if the decision to deny is based on a letter verifying excess resources, the date of the letter's receipt is the review date--even if the information is not entered in the automated file for two more days, or the notice to the client is not sent for another week.

Some have questioned the usefulness of establishing the review date in negative action cases. When two negative actions occur in one month, it is useful to keep straight the sequence of events by establishing the review dates. It is also important if the reviewer is to ensure that a household is

—
— allowed 30 days to complete its application. Yet, some argue that in many
— other instances this reporting requirement is potentially time consuming and
— has little or no value.

— Case Record Review. The negative case review is generally limited
— to a desk review: the reviewer establishes through documented information in
— the casefile that the agency's cited reason for the denial or termination is
— valid; once that is established, the review is complete. However, if the
— cited reason is determined not to be valid, the reviewer must look through the
— casefile to establish whether there is documented evidence that the household
— is ineligible for any other reason. If that effort is unsuccessful, the
— reviewer has two options: to consider the negative action incorrect, ending
— the review; or to pursue further information about the case by contacting the
— household and/or collateral sources. (This contact will nearly always occur
— by telephone.) As with active cases, the reviewer is not limited to the
— collateral contacts designated by the household.

— Discussions with State and FNS Regional Office staff indicated that
— the time spent on a negative case review ranges from 10-20 minutes to, in
— exceptional circumstances, 12-14 hours (the same time as an active case
— review). Staffing standards in the visited States are based on an average
— time of 1.25 to 1.5 hours. An example of the simplest type of review is one
— in which benefits are terminated because the household does not submit a
— monthly report. The review requirement is to find evidence that the required
— Notice of Adverse Action was sent to the household as a warning of the
— consequences of not filing the report.

— It appears that collateral contacts in negative action cases are
— infrequent--they are estimated to occur in 10 to 15 percent of the cases.
— Field investigations rarely occur.

Documentation. FNS rules indicate that the documentation in the case record must be sufficient to support the reviewer's decision on the status of the case, and it must clearly indicate the household's ineligibility. FNS allows a written statement made by the participant to be considered acceptable documentation. (And if verbal statements made by participants are documented in the casefile, these need not be verified.) For example, if a case is denied because of excess resources, and the household's signed application reports resources that exceed the allowable amount, the reviewer need not verify the statement with the household or with a collateral contact.

Other documentation acceptable to FNS includes certified or reproduced copies of official documents or reports, check stubs, receipts, or "full recording by a person who has secured information directly from public or other records."

Collateral Contacts. If adequate verification is not available in the case record, the reviewer is allowed (but not required) to obtain verification from the household or collateral contacts.

Handbook 310 specifies that documentation of second-party verification be thorough. The reviewer must document all collateral evidence or attach copies to the negative QC review schedule, Form FNS-245. If the information obtained by the reviewer through collateral contacts differs from the information provided by the household, these differences must be resolved by recontacting the household. All attempts to contact the household must be documented and included in the review file. If all efforts are unsuccessful, the second-party verification is considered acceptable and correct. A list of all collateral sources of information must be included in the case review file.

As suggested earlier, in only about 10 to 15 percent of negative case reviews does the QC reviewer make collateral contacts.

2.4 NEGATIVE CASE ERROR RATE

By definition, the negative case error rate expresses the number of negative cases for which the review finds that the household is incorrectly denied or terminated as a percentage of the number of completed negative case reviews. The summary form (Form FNS-247-1) used in reporting the disposition of the QC samples provides for separate accounting of cases not subject to review and reviews not completed.* Thus, if x of the n completed reviews are in error, the negative error rate, p , is

$$p = \frac{x}{n}.$$

(For simplicity we assume that the State uses a simple random sample or a systematic random sample. A more complex sample design, such as a stratified random sample or a cluster sample, would usually require a more complicated formula for the estimate, p .) In a simple random sample it is usually satisfactory to regard p as a binomial proportion. Thus, the estimated standard error of p is

$$\text{s.e.}(p) = \sqrt{p(1-p)/n}.$$

2.5 FEDERAL RE-REVIEW

Ordinarily a State's negative case error rate is simply the case error rate (p). Unlike the situation in active case QC, the Regional Office typically does not annually select and review a subsample of the State's

*There are four categories of reviews not completed: unable to locate case record; participant refused to cooperate; review not processed (in time for inclusion in the report); and other.

negative QC sample. Until recently this step occurred only when the State's active and negative error rates for the review period might entitle it to enhanced funding. Now, under the current system, a Regional Office is to conduct a re-review of the negative QC sample of each State in its region every second year. Some Regional Offices, however, have begun to re-review each State annually. As reproduced here in Appendix B, Chapter 3 of the Federal Quality Control Validation Review Handbook (FNS Handbook 315) specifies the procedures for re-review of negative cases.

The federal validation review focuses on two components of the State's negative case sample. First, the cases for which the State agency completed its review form the frame for selecting the federal subsample. The federal subsample is 75 cases, if the State's annual negative case sample size (n) is under 150; $75 + 0.130(n-150)$, if n is between 150 and 799; and 160, if n is 800 or more. Second, the Regional Office also reviews all cases that the State agency has classified as "not subject to review" or "not completed"--to determine whether these classifications are proper. For the completed cases the validation review merely determines whether the case record and review file contain sufficient documentation to support the State agency's QC finding.

Guidelines require only that State QC reviewers complete Form 245, which documents the reasons for the review decision. Some Regional Offices recommend to States that the reviewers go beyond the minimal requirements and make copies of documentation to support the review decision and include it in the review file. One Regional Office requires that the entire casefile accompany the review file for negative action cases sub-sampled for federal re-review. The files are sent to the Regional Office through certified mail, at the State's expense.

The results of the federal re-review provide a basis for calculating the State's regressed error rate for negative actions, as is routinely done for the payment error rate. Chapter Three discusses the details of this procedure and its application to the negative case error rate.

Arbitration. The arbitration process exists to resolve conflicts of policy issues that arise between the States and Regional Offices when their respective QC reviewers disagree on case findings. The State agency is allowed to appeal questions of quality control or certification policy as they are applied to specific cases. A Regional Office arbitrator who is uninvolved with the federal re-review process will review the findings of both parties and make a determination. If the State agency disagrees with the arbitrator's decision, it is then allowed to appeal to the FNS National Office.

There is a limited time schedule through which the arbitration process can occur. The State agency has 28 days from the date it receives the federal re-review case finding to request formal arbitration. Sometimes an informal conference is requested prior to arbitration. This must occur in time to allow the State to act before the 28-day period is concluded. However, the Regional Office is allowed to accept late requests. The arbitrator's decision must reach the State agency within 30 days of the postmark stamped on the State's request. Cases for which an arbitrator's review decision cannot be made within this timeframe are to be completed as soon as possible.

2.6 EVOLUTION OF QUALITY CONTROL FOR NEGATIVE ACTIONS

The current quality control system for negative actions. as

described above, has evolved over a period of years. A brief look at some stages of this development may help to put the present situation in a broader perspective.

Sample. When it began, the food stamp quality control program sampled only "non-assistance" households (i.e., households in which not all members receive public assistance). The sampling universe was enlarged to include public assistance (PA) households beginning July 1, 1976. For an indication of the extent of the universe, Exhibit 2.6 shows the average monthly number of negative actions in each measurement period from Fiscal Year 1975 through Fiscal Year 1986.

Because the negative action sample size is not simply a percentage of the number of negative actions, but rather reaches a ceiling, the number of completed sample reviews increased only modestly from 1976 to 1978 and changed little through 1982. The largest change came in 1983, when the current 12-month reporting period replaced the previous 6-month period. By 1985 the sample size requirement that had earlier applied to each 6-month period was being applied to the 12-month period, so that the total number of reviews per fiscal year fell accordingly.

Error Rate. The negative case error rate rose sharply from 1976 to 1977 and 1978, but one must use great caution in interpreting this change without detailed analysis of the data. The early reports on the results of quality control warn that the sample data "are not equally valid for all States," in part because "various start-up and staffing problems have impeded

Exhibit 2.6**FOOD STAMP QUALITY CONTROL ACTIVITY,
NEGATIVE CASES, FISCAL YEARS 1975 TO 1986**

<u>Measurement period</u>	<u>Monthly negative actions</u>	<u>Completed sample reviews</u>	<u>Negative case error rate (%)</u>
Fiscal Year 1975			
July-December 1974	123,159	19,449	7.3
January-June 1975	171,454	23,090	7.7
Fiscal Year 1976			
July-December 1975	171,662	25,134	6.0
January-June 1976	162,719	27,023	5.5
Reporting Year 1977			
July-December 1976	198,101	27,642	9.1
January-June 1977	227,281	29,372	11.0
Reporting Year 1978			
July-December 1977	304,743	28,895	13.3
January-June 1978	302,533	29,168	12.0
July 1978-September 1979 (Suspended)			
Fiscal Year 1980			
October 1979-March 1980	384,752	27,445	3.9
April-September 1980	424,145	28,775	4.0
Fiscal Year 1981			
October 1980-March 1981	377,915	30,303	3.9
April-September 1981	394,692	28,376	3.5
Fiscal Year 1982			
October 1981-March 1982	417,808	31,085	3.5
April-September 1982	380,161	29,424	3.9
Fiscal Year 1983	416,863	61,622	2.9
Fiscal Year 1984	428,133	41,513	3.1
Fiscal Year 1985	418,150	36,424	3.2
Fiscal Year 1986	419,856	33,697	3.8

Explanatory Notes (see following page)

Exhibit 2.6
(continued)

**FOOD STAMP QUALITY CONTROL ACTIVITY,
NEGATIVE CASES, FISCAL YEARS 1975 TO 1986**

Explanatory Notes

- a. July-December 1974 negative actions exclude Massachusetts.
- b. July-December 1975 negative actions exclude Iowa, Massachusetts, and Puerto Rico.
- c. January-June 1976 negative actions exclude Massachusetts.
- d. July-December 1976 negative actions exclude Massachusetts and Nebraska, but include Guam (for the first time).
- e. January-June 1977 negative actions exclude Massachusetts, Rhode Island, and Virgin Islands.
- f. January-June 1978 negative actions exclude Massachusetts.
- g. The Food Stamp Act of 1977 made major changes in the Food Stamp Program. Quality control operations were suspended from July 1978 to September 1979.

Sources: U.S. Department of Agriculture, Food and Nutrition Service, "Food Stamp Quality Control Annual Report" for Fiscal Years 1983 through 1986 and "Semiannual Summary Report of Food Stamp Quality Control Reviews" for previous measurement periods.

full implementation of quality control." It may be more useful to observe that, from 1980 onward, the negative case error rate for the Food Stamp Program as a whole (based on the States' reports) has generally been between 3 and 4 percent.

Review Procedures. Prior to 1979, QC review of negative actions was limited to determining the correctness of the stated reason for denial or termination, and whether a Notice of Adverse Action was sent to the household. If a review of the case record was insufficient to determine the correctness of the stated reason, increased effort was required, in the form of collateral contact and a field investigation, if necessary, to obtain verification from the household. If the decision to deny or terminate was found invalid, the action was considered in error. There was no expectation that the reviewer would determine whether the household was in fact eligible to receive food stamps.

Beginning in 1979, regulations expanded the scope of the negative action review. If, upon review of the case record, the reason for the negative action could not be validated, the reviewer was obligated to determine whether the household was in fact eligible to receive food stamps at the time of the decision to deny or terminate. This would occur by first calling a collateral contact designated in the case record. If information remained insufficient, the reviewer would conduct a field investigation, including an interview with the household and verification through further collateral contacts. The field investigation would not continue beyond the point where the reviewer determined that the household was ineligible.

A proposed rule at the time suggested requiring the QC reviewer to establish the coupon allotment amount that should have been received by a

household whose denial or termination was in error. However, USDA accepted the position of commentators opposing this requirement, stating that such computation was the responsibility of the local office staff (unless a computation of the household's net food stamp income was necessary to determine eligibility).

The concept of "administrative deficiency" was added to negative QC reviews at this time. They were defined to be "deficiencies detected in a case which do not affect a household's eligibility for food stamps, or which involve variances that are disregarded from a case's error determination." Examples include a Notice of Adverse Action not sent to the household, unsigned applications, or insufficient documentation in the case record. Administrative deficiencies were to be reported to FNS through the negative QC review schedule, and reported to the State agency for appropriate action.

The next substantial change in negative action reviews occurred in 1983-1984. In order to simplify the review process, and to make the process consistent with that required for AFDC and Medicaid, USDA scaled back the review requirements to a case record review. The QC reviewer would first examine the documentation in the casefile to determine whether the reason given for the denial or termination was valid. If not, the reviewer would determine whether the household were ineligible for any other reason documented in the file. When necessary, telephone calls to the household and/or collateral contacts to verify elements in question were allowed.

At the same time USDA eliminated the concept of administrative deficiencies from the QC review system in order to reduce the burden of identifying and reporting deficiencies that do not contribute to error, therefore allowing State agencies to focus their resources on correcting

errors that result in actual program losses. Although FNS no longer required any reporting of deficiencies, States were allowed to continue recording this information for their own use.

Current policy for conducting negative reviews, according to FNS Handbook 310, follows the regulatory changes implemented in 1984.

CHAPTER THREE:
APPROACHES TO MEASURING NONPAYMENT ERROR

The current negative action quality control system yields a negative case error rate that--for reasons described earlier--is a far more limited measure of certification error than the overpayment and underpayment error rates now estimated for the active caseload. This chapter discusses the steps involved in specifying a system that measures nonpayment error on a comparable basis. The basic features of the payment error rate as a measure of certification error are first reviewed, so as to establish the standard by which the comparability of alternative nonpayment error measures is to be judged. The fundamental aspects that now distinguish the error measures between active cases and negative cases are the logical focus for modifying the current negative action QC system. Once these considerations are identified, the chapter then discusses the design features that would seemingly be common among any modified systems for measuring negative action error, with respect to the sampling process (including federal subsampling), the review procedure (including federal re-review), and the estimation method (including the regression estimate and the sample noncompletion adjustment). This then allows Chapter Four to discuss alternative systems with primary attention to their comparative features.

3.1 BASIC FEATURES OF THE CURRENT SYSTEM FOR MEASURING PAYMENT ERROR

The measurement system for estimating the "official" regressed error rates for overpayment and underpayment can be described in the following simplified fashion. The active caseload is subject to monthly sampling on the

basis of case-months of certification. The reviewable universe of case-months reflects a limited number of exclusions, such as certifications made during a natural disaster or certifications to households under investigation for an intentional program violation. An active case-month can be defined as a calendar (or fiscal) month during (all or part of) which a household is certified to participate in the Food Stamp Program. A household that is in the reviewable universe throughout the entire fiscal year enters the sampling frame every month and is thus subject to sampling for each of twelve separate case-months of certification.

For each sampled case-month, a QC reviewer investigates the case and determines the "QC-correct" certification amount, the standard by which the accuracy of the "agency-determined" certification amount will be judged. The QC-correct certification amount for the review month reflects the verified circumstances of the household and the proper application of program policies. The household's verified circumstances are established through a field investigation that includes client and collateral contact, with each item of eligibility subject to prescribed standards of verification. The amount of payment error for the review month--i.e., the difference between the QC-correct and agency-determined certification amounts--is computed under specific rules as to included and excluded "variances" with respect to household information and the interpretation of policy. A case is considered overpaid or underpaid if the amount of payment error for the month exceeds \$5.

For a subsample of the State-selected case-months, a federal re-review is conducted to determine a federal error finding, which may differ from the State's finding. The "regressed" error rate for either overpayment or underpayment is then computed as an estimated ratio of the average payment

error per case-month to the average issuance per case-month. The estimated numerator is based on both State and federal review findings (reflecting the degree of agreement between them), whereas the estimated denominator is based on the State sample only. The "official" error rates for overpayment and underpayment, on which fiscal liabilities and enhanced funding are based, also reflect an adjustment for sample noncompletion, with an error rate two standard deviations above the State-reported level assigned to those cases that are subject to review but for which a review is not completed.

This approach to error measurement among active cases has the following significant features:

- it is "dollar-based," in providing the dollar magnitude of annual errors in relation to an appropriate dollar-measured denominator;

- it is "outcome-focused," in giving minimal regard to issues of procedural compliance on the part of either the agency or the client;

- it is "investigation-determined," in treating all household information as subject to verification by means of a field investigation; and

- it is "duration-related," in that payment errors are subject to sampling in every month of their duration.

These aspects of the existing quality control system for active cases are described below.

Dollar-Based Error Measure. The overpayment and underpayment error rates indicate the extent of error in terms of dollar consequences. It is thus possible to interpret the error rate directly as an indicator of the financial implications of error--and error reduction--for States, the federal government, and clients. Although case-based error measures, or "case error rates," can be (and are) derived from the active case reviews, such perfor-

mance measures are not as meaningful for policy-making as their dollar-based counterparts. For instance, States A and B might have equal case error rates for overpayment, but State B might exhibit a much higher amount of payment error per error case. This would be properly reflected in a higher dollar error rate for State B.

For overpayment, the dollar measurement of error is also important in enabling consideration of possible corrective actions. Typically, such actions require increases in annual administrative costs. One can assess the desirability of possible actions by examining whether the likely reduction in the dollar-based error rate, when converted to an estimate of annual savings, is sufficiently large to offset the higher administrative costs.

Outcome-Focused Error Measure. In determining whether an active case is in error, there is no regard for whether the agency properly applied administrative procedures in determining the certification amount. For instance, if a case is receiving payment beyond the expiration of its certification period, the payment is not automatically considered in error, even though the payment should not have been made without a recertification of the case. The review simply proceeds as if the case was within its certification period. The case will be considered correctly paid if the certification amount corresponds correctly to the household's circumstances. Similarly, where the monthly payment reflects a benefit reduction from the prior month, but where the agency did not provide proper notice to the household, the agency's failure to afford due process to the client is not considered.

The client's compliance with procedural obligations is relevant to the determination of error for an active case only in situations where the client has refused to supply a correct Social Security number for each member

of the household, to comply with requirements for work registration and job search, or to submit a monthly report. In the latter two situations, the entire household is considered ineligible; for Social Security enumeration, the individual whose number is lacking is excluded from the household in determining eligibility and benefits. In all other respects, however, a client's failure to comply with procedural requirements is immaterial to the determination of error.

The active case review process thus bases the "QC-correct" certification amount almost entirely upon the "circumstantial eligibility" of the household--i.e., the household's status with respect to demographic and financial circumstances, as follows:

demographic circumstances

- age and school attendance
- citizenship and alienage
- residency
- living arrangement
- disability
- strike or voluntary quit status

financial circumstances

- resources
- gross income
- net income--after allowable deductions for:
 - work expenses
 - dependent care
 - shelter
 - medical care

In this sense the active case QC system can be considered "outcome-focused." The error determination essentially reflects the extent to which the certification amount differs from the circumstantially-derived entitlement to the household, disregarding nearly all issues of procedural compliance by either the agency or the client.

Investigation-Determined Error Measure. The active case review does not assume that information contained in the case record accurately reflects the circumstances of the household. The household's status may be mischaracterized as a result of client misreporting, either unintentional or deliberate. However, it is considered the responsibility of the agency to detect client misreporting through careful verification. Arguably, some degree of client misreporting may go undetected even if the agency properly carries out its verification. This reflects the limits of agency access to sources that would reveal misreporting and the limits of agency time in performing such verification.

Indeed, because the QC reviewer typically undertakes verification beyond that required of the eligibility worker, the QC-correct certification amount may differ from the certification amount that would result from proper implementation by the agency of all administrative procedures and proper application by the agency of all program policies. The rationale for this is that, in order for the measured error rate to be a meaningful indicator from one State to another, the error rate must be based on an objective standard of accuracy that can be uniformly applied in all States. Moreover, the federal government's concern for accurate payment is one that transcends the distinction between agency-caused or client-caused error. To the extent that it is the taxpayer whose interests are at issue in measuring overpayment, it is irrelevant whether an active case receives too much in benefits because the client erred in reporting or because the agency failed to detect the misreported information. Because agencies have the ability to deter client misreporting through stringent verification, strict anti-fraud enforcement, and active collection of claims against overpaid households, making agencies

accountable for client-caused errors maintains the incentive for agencies to implement measures to reduce such error.

Duration-Related Error Measure. The sampling procedure for the active case review makes every active case-month during the year subject to selection and review (except for those in limited excluded categories). Cases are thus equally reviewable in all months of correct payment and in all months of incorrect payment. This implies that a case becoming in error stands some chance of being selected in the first month and any subsequent month of its error "spell."

The significance of this sampling design can be illustrated in an example. Assume that States A and B are equal in the rate at which cases become in error, and that all errors that occur are of the same monthly magnitude. However, if the error cases in State B tend to remain longer in error, State B will appropriately exhibit a higher annual error rate than State A.

Alternatively, one could sample active cases only in the month of a "positive action"--i.e., an approved application for initial certification or a continuance at recertification. The resulting "positive action error rate" would reflect the accuracy of intake and recertification decisions, but it would not reflect the rate at which cases become in error due to interim changes in household circumstances or the rate at which interim procedures such as monthly reporting or computer matching serve to correct errors once they occur. The resulting error rate would also not indicate the extent to which errors contribute to the size of the monthly caseload or the level of monthly issuances.

3.2 **APPLYING THE LOGIC OF ACTIVE-CASE QUALITY CONTROL TO NEGATIVE ACTIONS**

In order to measure nonpayment error in a manner comparable to the current measures of overpayment and underpayment, the negative action quality control system must be modified to yield a nonpayment error rate that is dollar-based, outcome-focused, investigation-determined, and duration-related. Assuming that the nonpayment error measure must be subject to federal re-review and that the official error rate will reflect both federal and State findings, it also seems important to define the nonpayment error measure in a way that allows the current regression method to be used.

The "Dollar-Based" Criterion. A strict application of the QC logic for active cases to the measurement of nonpayment error would seemingly call for the following kind of system. The objective would be to estimate the average amount of nonpayment error per negative case-month, as the dollar-based counterpart of the average amount of payment error (separately for overpayment and underpayment) per active case-month. The separate rates of overpayment error, underpayment error, and nonpayment error could then be expressed as percentages of a common dollar-based denominator, allowing the rates to be meaningfully summed. This common denominator could be the average issuance per active case-month, as is currently used. However, such a denominator is itself a function of error and would cause the separate rates to interact. For instance, the higher the level of overpayments, the higher the average issuance per active case-month, and hence the lower the measured error rates of underpayment and nonpayment, all other things equal.

A more appropriate denominator would be an error-adjusted average "entitlement" per case-month, including both active and negative case-

months. This would be estimated by aggregating total annual issuances to active cases (as now estimated from the quality control sample of active cases), subtracting annual overpayments to active cases, adding annual underpayments to active cases, and adding annual nonpayments to negative cases. This net aggregate figure would comprise total annual entitlements, or the annual issuances that would have been paid if all client households had received their QC-correct certification amount. Dividing the amount of annual entitlements by the total number of active and negative case-months would thus yield the average entitlement per case-month.

For negative actions considered in error, the amount of the nonpayment error would presumably be determined directly by the reviewer as the "QC-correct" certification amount. However, situations may arise in which the action is in error, but the error amount is indeterminate because information from the household is lacking. Rather than dropping such cases as incomplete reviews, which would clearly bias downward the error rate, some method of imputing the error amount would be desirable.

Several possible rules could serve to impute the error amount in such cases. One rule would simply use the average monthly issuance per active case. Such an approach has precedent as the method used in the AFDC program to compute incentive payments to low-error States, as formerly required under the Social Security Act. However, this could be considered biased in that negative error cases may arguably tend to be only marginally eligible and thus qualify for smaller issuances than the average. A more technical objection would be that the average issuance per active case itself reflects the degree of overpayment and underpayment in the active caseload. To address this point, an "error-corrected" average monthly issuance to active cases could be

estimated by multiplying the average monthly issuance by the following correction factor:

$$\frac{1 - \text{overpayment dollar error rate} + \text{underpayment dollar error rate}}{1 - \text{ineligibility case error rate}}$$

The numerator serves to correct for the effect of payment error on the aggregate dollar amount of program issuances, whereas the denominator serves to correct for the effect of payment error on the size of the active caseload.

Another imputation approach would use the average nonpayment error amount computed for those negative error cases in which sufficient information is available. Finally, the issue could be handled in the same fashion as the current post hoc error rate adjustment for sample noncompletion in each State. That is, for all reviewable negative cases in which the review can not be completed, an error rate could be assigned that reflects some arbitrary increment (e.g., two standard deviations, as now used) above the error rate computed from the completed reviews.

The "Outcome-Focused" Criterion. For the nonpayment error measure to be strictly comparable to the existing payment error rates, the QC-correct certification amount should be determined with minimal regard to the agency's compliance with procedural requirements. That is, the correctness of the agency's decision should not be based on the agency's observance of requirements for timely action and advance notice to the client. Such an approach would dramatically alter the nature of the current negative case review, as explained below.

As the QC process now operates, a denial is considered in error if the agency, while awaiting information requested from the client, makes the

denial prior to the 30th day following the application. Similarly, a denial or termination is considered in error if the agency fails to notify the client of the action at least 10 days prior to the effective date. In such instances, the household may in fact have been ineligible and thus no benefit loss may have occurred, but an error is still recorded.

If the system is to become outcome-based, such procedural failures on the agency's part would not render the action in error. As with the active case review, such procedural matters would become immaterial to the error determination. It is nonetheless possible, and perhaps desirable, to use the QC review to monitor agency compliance with such requirements of due process, identifying as "administrative deficiencies" those instances in which the agency is found not to have followed proper procedure.

With respect to the client's procedural compliance, a case can be made that the determination of nonpayment error should be based principally on whether the household was circumstantially eligible to receive assistance for the period in which certification was denied or terminated. One of the policy concerns that motivates the negative action QC system is that agencies may, in the interests of reducing overpayment error, establish procedural requirements so burdensome to clients as to run a risk that circumstantially eligible households will be unable to comply and will therefore not participate. Evidence to support this concern was presented in a recent study of AFDC and Medicaid conducted for the Southern Governors' Association, indicating that nationally more than one-half of denials occur for procedural reasons.* The

*See Sarah C. Shuptrine and Vickie C. Grant, "Study of the AFDC/Medicaid Eligibility Process in the Southern States," prepared for the Southern Regional Project on Infant Mortality, sponsored by the Southern Governors' Association and the Southern Legislative Conference, April 1988. See also "Many Rejected for Welfare Aid over Paperwork," New York Times, October 29, 1988, pp. 1, 8.

difficulties that households experienced with procedural requirements were attributed to such factors as illiteracy, language barriers, lack of transportation, and inability to obtain requested documents. The study made no attempt to establish whether the households were circumstantially eligible and thus lost benefits as a result of these procedural difficulties.

If, as is current practice in negative case reviews, client procedural noncompliance renders the negative action correct (or not subject to review, in the case of expired certifications), the concern for excessive

procedural burden upon clients is not addressed. However, the current approach has ample justification as a basis for evaluating the administrative performance of State agencies. If a client fails to meet a procedural requirement of eligibility, the household can be viewed as losing its entitlement to a benefit, even if it qualifies on all other grounds. The agency is thus correct in denying or terminating assistance, and no benefit loss could be said to occur. Indeed, for such negative actions to be considered in error would seemingly undermine the implementation of federally-mandated procedural requirements, such as those pertaining to social security enumeration, work registration, job search, and monthly reporting.

The current approach serves to minimize the reviewer effort necessary to complete the negative review. In order for a negative action to be considered correct under the current QC system, it is only necessary for the reviewer to establish that the household was ineligible on a single procedural or circumstantial basis. As explained in Chapter Two, this review approach usually requires only a case record review, under current standards of documentation.

If, in contrast, procedural noncompliance by the client is considered immaterial to the error determination, it would become necessary in most negative cases to investigate the client's demographic and financial circumstances. This approach would place a great premium on client cooperation, if the review process is to avoid prohibitive administrative cost and/or high noncompletion rates. A purely outcome-based approach to negative action QC would thus likely increase the time spent per review.

An outcome-based negative review process, although more strictly comparable to the current active case review and although necessary to address the concern of excess burden on clients, thus has the potential for substantial increases in the cost of conducting negative reviews, with the accompanying prospect of high noncompletion rates if clients cannot be located or if their cooperation cannot be obtained. As described below, a more basic issue also arises in considering whether a household should have its benefits restored in situations where the client has failed to comply procedurally.

Consider, for instance, two monthly reporting cases that are circumstantially eligible. One case fails to submit its monthly report and is terminated, whereas the other files its monthly report and remains on the active caseload. The termination would be found in error in an outcome-based system, and the case would be referred to the local agency for restoration. However, what amount of benefit would be restored? The local agency could assert that the termination was entirely justified, according to the agency's administrative rules, and that no restoration is warranted. Moreover, restoring the benefit would seem to establish a double standard in the treatment of the two cases. (That is, why should the non-filing household become effectively exempt from the reporting requirement merely because it was

selected for QC review?) However, if no benefit is to be restored, in what sense has any "benefit loss" occurred that deserves to be defined as an error? This logical inconsistency will exist in any system where the QC-correct certification amount (the basis for the error determination) differs from the certification amount corresponding to proper application by the agency of administrative procedures and program policies.

It may nonetheless be defensible to measure nonpayment error in a way that disregards client procedural compliance--e.g., that considers in "error" any circumstantially eligible case that the agency denies or terminates for procedural reasons. This would be similar to what is now done in measuring client-caused errors among active cases. If such a strict standard of nonpayment error is used for purposes of evaluating administrative performance, it might then be appropriate to apply a tolerance level of error above which the agency would be held accountable.

Thus, with respect to client compliance with procedural requirements, an outcome-based measure of nonpayment error poses both practical and conceptual difficulties. However, because such a system could address a broad range of administrative concerns, and because the difficulties may be surmountable, the feasibility of such an approach could be tested.

The "Investigation-Determined" Criterion. The current negative case review applies standards of "documentation" that are far less stringent than the standards of "verification" applied in an active case review. For example, if the negative action is based on a written statement by the client, such a statement need not be verified. However, an active review subjects all client statements to verification. The underlying logic is that the client would not over-report resources or income, but might under-report these items.

However, the findings of active reviews do suggest that clients may misreport information to their disadvantage. Analysis of the national QC sample for Fiscal Year 1986 indicates that in 34 percent of underpaid cases the error was attributable to the client. Most notably, such cases involved over-reporting of earned income, under-reporting of allowable deductions, or exclusion of eligible persons from the household. Presumably, clients simply misunderstand the items requested on the application form or the instructions of the eligibility worker, and unintentionally misreport their circumstances.*

To be fully consistent with the active case review, the negative case review should seemingly adopt the same standards of verification, with respect to collateral contact, supporting documents, and client statements. Thus, if a negative action is taken for a circumstantial reason, that particular item of circumstantial eligibility would be verified by the reviewer on the same basis as in determining eligibility during an active case review. On issues of procedural ineligibility that have no counterpart in an active case review, such as failure to appear for two scheduled interviews without good cause, the standard of supporting evidence would be specific to the negative review.

*One might argue that, although underpayment error may be client-caused, nonpayment error is far less likely to be attributable to the client. For instance, except in the case of a single-person household, the exclusion of an eligible member will not lead to a denial or termination. Also, unless the household is near the threshold for resources, gross income, or net income, small reporting errors in these items will not have led to an erroneous negative action. However, to the extent that one-third of active cases are single-person households, an appreciable percentage of denied and terminated households may also have only one member. If that person's demographic status is mischaracterized in the case record so that he or she appears to be ineligible when in fact he or she is eligible, a nonpayment error may have occurred.

Whatever standards of verification are to be adopted for the negative case review, it is essential that such standards are explicitly stated and uniformly applied. The current negative case review requirements leave substantial room for reviewer discretion as to what constitutes acceptable documentation. Clearly, measured error rates will depend on the requirements for evidence to support the error determination. If the nonpayment error rate is to be used as a measure of administrative performance by which States will be judged--and on which enhanced funding and fiscal liabilities may be based--the "burden of proof" upon the reviewers in each State must be consistent.

The "Duration-Sensitive" Criterion. Just as the measured error rates for active cases reflect both the onset and duration of payment errors, so should the nonpayment error measure reflect the onset and duration of nonpayment errors. There is no reason to believe that a nonpayment error, once it occurs, will last only through the effective month (the current treatment). To the extent that such errors persist into subsequent months, any measure that arbitrarily "truncates" the error at the end of the effective month will understate the actual extent of error. The amount of understatement will depend on the expected length of the nonparticipation period--the "nonpayment error spell"--that one can attribute to the erroneous denial or termination.

One might be inclined to make the narrow argument that an agency's accountability for any nonpayment error should be restricted to the effective month of the action, or should not extend beyond the date on which the required notice of the action has been received by the client. The logic here would be that the client has the right to reapply at any time and that the household's failure to reapply "absolves" the agency of responsibility for the

household's continued nonparticipation. The flaw in this reasoning is evident in situations where a household is erroneously denied as circumstantially ineligible, and does not subsequently reapply because its circumstances remain unchanged, and it could only expect to be denied again. In such instances, the agency should seemingly be accountable for the error beyond the effective month of the denial.

Once an erroneous negative action occurs, the corresponding nonpayment error would last--in principle, at least--until one of the following conditions is met (or would have been met):

the household reapplies for assistance (so that any continued nonparticipation is the result of the agency's denial of the reapplication, a separate negative action);

the household experiences demographic or financial changes that make it ineligible (or, in the terms of this study, the QC-correct certification amount falls to zero through circumstantial ineligibility); or

the household, if it had not been denied or terminated, would have been terminated as an active case for failure to comply with a procedural requirement (the QC-correct certification amount would have fallen to zero through procedural ineligibility).

Clearly, such issues pose significant problems for error measurement. The third condition above can not be addressed by direct measurement, because it pertains to an unobserved counterfactual scenario. The second condition above is problematic, in that the household situation may change because of the erroneous action. For instance, some household member might take a second job in the absence of the food stamp benefit, but would not have done so otherwise. The first condition above is perhaps the only one that is observable.

Changes in the composition of the household following the erroneous action confound matters further. If the household splits or joins with

another, whose circumstances are to be counted in determining whether the error still persists--and, if the error remains, in what amount? The program regulations pertaining to the restoration of benefits offer one possible approach to this issue:*

Whenever lost benefits are due a household and the household's membership has changed, the State agency shall restore the lost benefits to the household containing a majority of the individuals who were household members at the time the loss occurred. If the State agency cannot locate or determine the household which contains a majority of household members, the State agency shall restore the lost benefits to the household containing the head of the household at the time the loss occurred.

With these various complicating issues in mind, there are several possible strategies for dealing with the duration of error, in the context of an operational error measurement system. One strategy--the "default" approach--simply adopts the perspective of the current measurement system, which is to measure nonpayment error only in the first effective month of the action and thus give no regard to the possible persistence of error into subsequent months.

A second strategy, the imputation approach, would assign an empirically-derived duration of nonpayment error to each action found to be in error. This strategy could take any number of different forms and is thus better characterized as a "class" of options, where each would make different use of available data. At the most aggregate level, the imputed error duration could be the same for all negative errors in each State. Alternatively, the imputed duration could differ between States or even within a State, with each negative error case potentially assigned a case-specific

*Code of Federal Regulations, 273.17(g).

estimated error duration, on the basis of some observed characteristic(s) such as household size.

An imputation approach has some merit in not complicating the process by which negative cases are sampled or reviewed. However, no single imputation technique currently presents itself as logically compelling, empirically feasible, and methodologically unassailable. Because the measured nonpayment error rate may be quite sensitive to the specifics of the imputation rule, a more defensible policy approach might be--as suggested by the National Academy of Sciences Panel on Quality Control of Family Assistance Programs--to construct one's measure of payment inaccuracy as a weighted sum of error rates for both payment error and nonpayment error, where the weight applied to the measured nonpayment error rate would reflect (at least in part) the unmeasured duration of such errors.

A third strategy would explicitly measure the duration of error for those actions found in error, in at least some limited case-specific fashion. Again, this is an entire class of options. One specific approach would design the sampling procedure in a way that makes each reviewable action subject to selection when it first enters the sampling frame, but with the case review conducted only after a prescribed number of months has elapsed. This "delayed-review" scheme would adopt an arbitrary time "horizon"--for example, three months--at the end of which the negative action would be reviewed. (In this context, the current sampling system can be viewed as simply having a one-month horizon.)

If a negative action was selected and then reviewed under a three-month delay scheme, the reviewer would first determine whether the action was in error at the time it was taken. If not, the nonpayment error amount

recorded for that action would be zero. If the action was in error when taken, with some amount of nonpayment error thus attributable at least during the first effective month, the reviewer would next determine whether a nonpayment error was also present in the second effective month--i.e., was the household still not participating with the QC-correct certification amount still positive? If the error was no longer present--for example, if the household had reapplied by the start of the second effective month and been certified, or if the household was no longer circumstantially eligible--the error finding would be zero for that month and also for the third month. If the error was still present, however, any error amount determined for the second month--and then, successively, for the third month--would be cumulated with the first-month finding. Each action could thus generate a nonpayment error as long as three months in duration.

This delayed-review approach would enable the estimated error rate to reflect the continued presence of error amounts through the third effective month of each action. In principle, the longer the time horizon--here, three months--the more effective will be the plan in addressing the duration issue. However, a longer horizon also will presumably cause higher noncompletion rates, as the passage of time makes it more difficult to locate clients and obtain their cooperation.

Also included in this third class of options are approaches that would entail a case review at the time of selection, as is currently done, but with error cases then also subsequently reviewed after a prescribed interval. The possible difficulty with such "double-review" approaches, and the reason for detailing here the delayed-review variant, is as follows. If the action is found to be in error at the outset, is it not incumbent upon the

agency to notify the client and immediately seek restoration for any amount of benefit loss? Does this not render the case unavailable for further measurement, at least with respect to the timing of any reapplication that might otherwise have occurred? Although this issue may deserve further examination, it seems problematic enough at this point to exclude double-review approaches from further consideration.

3.3 FUNDAMENTAL DESIGN CONSIDERATIONS

The foregoing discussion indicates that, if a redesigned negative action QC system is to yield an error measure that is strictly comparable to the existing payment error rates for active cases, the measure of negative action error must be dollar-based, outcome-focused, verification-determined, and duration-related. This calls for a negative action QC system that is quite different from the current system. For instance, the error determination will not rest on whether the agency followed proper procedure with respect to timely action and advance notice; rather, it will rest on whether the household can be considered both procedurally and circumstantially eligible for assistance at the time of the denial or termination. In such basic respects, as the following section elaborates, alternative systems need not differ from each other, even though each will differ greatly from the current system. In comparing the administrative feasibility of one alternative system to another, however, it seems likely that the "primary" design considerations will be the following:

in defining nonpayment error, what forms of client procedural noncompliance will cause the household to be considered procedurally ineligible, and thus cause the negative action to be considered correct (or perhaps not subject to review)?

what standards of verification will the reviewer have to apply, in order to establish that a household is either procedurally or circumstantially ineligible?

by what means will the measured nonpayment error rate account for the duration of a negative action error, once it occurs?

These issues will most importantly determine the degree of reviewer effort necessary to complete the case review. Because the cost of the measurement system will be largely a result of the required reviewer time, these issues are critical and will be the central focus of the alternative designs discussed in Chapter Four.

Other issues will importantly affect the level of the measured error rate, but will not so dramatically influence the administrative cost of alternative systems. These other design considerations include the following:

what dollar-based denominator will be used in expressing the nonpayment error rate?

what regression estimation formula will be used?

what sample noncompletion adjustment will be applied?

These latter issues, because they will not so importantly determine the operational feasibility of alternative systems, receive less attention in Chapter Four.

As a general observation, it appears that the objective of measurement comparability conflicts with two major concerns:

reviewer time, the principal determinant of administrative cost of the measurement system; and

review noncompletion, a principal determinant of statistical quality of the measured error rate.

For example, the more the negative action QC system is to focus on the correctness of the certification outcome, versus the correctness of the process, the more limited should be the role of client procedural compliance in making the error determination. However, this requires that more negative cases will then have to be investigated as to their circumstantial eligibility. This will increase the required reviewer time and raise the prospect of higher noncompletion rates.

There is little to say at this point about the terms of the tradeoff between these competing policy concerns. However, the clear consensus among those with extensive experience in QC operations is that the need for client contact or collateral contact in a negative case review poses major difficulties. Among the issues of concern are the following:

such clients are difficult to locate, as they may have changed residences, may not have working telephones, or may spend little time at home;

nonparticipating clients see no reason to cooperate with a QC reviewer, may be upset at the agency's recent action, and may see the review as a further intrusion on their privacy;

these clients have little incentive to cooperate, for no current benefit is endangered by failure to cooperate;

terminated clients may have knowingly been overpaid in their last months as active cases and will not want to respond to questions about their circumstances during that period;

if clients do cooperate, their responses to questions may be biased or subject to recall error;

collateral contacts may choose not to provide information without a specific release signed by the client, but clients may be unwilling to sign such a release;

reviewers experience anxiety and frustration in undertaking such reviews, knowing that they may face resistance or even hostility.

These matters help to explain why the negative case review process has come to rely largely upon an inspection of the case record and to include client or collateral contact at the discretion of the reviewer. Such observations also suggest that, if a modified system is to rely more on client and collateral contact than the current system--as seems necessary if measurement comparability is to be attained--such contacts should be required only in limited kinds of cases.

3.4 COMMON COMPONENTS OF A MODIFIED SYSTEM FOR MEASURING NEGATIVE ACTION ERROR

The foregoing discussion sets the stage for consideration of designs for a modified negative action QC system. Such a modified system can be viewed as having three major components:

the sampling process--by which each State will select a random sample of negative cases from the defined universe of reviewable cases, with a corresponding process for selecting a federal subsample for re-review;

the review procedure--by which, for each selected case, the State will establish the correctness of the agency's certification, with a corresponding procedure for federal re-review of subsampled cases; and

the estimation procedure--by which, for each State, the findings of the State reviews and the federal re-reviews are to be used (with any other information) to determine a nonpayment error rate, including a sample noncompletion adjustment.

As mentioned earlier, alternative modified systems will have some common features of sampling, review, and estimation. Any comparative discussion of alternatives thus need not address such common aspects. In order to allow Chapter Four to focus on the more important dimensions of alternative designs, the following sections serve to build a common foundation on which each alternative system can then be constructed.

Sampling Process. A modified measurement system for negative actions is likely to include modifications in the sampling aspects of the quality control system. Although the relationship between federal re-reviews and State reviews under the quality control system has aroused some controversy, the present study will retain the current structure. That is, the federal re-review will be based on a sample of the negative cases that the State has reviewed. (In addition, as now, the FNS Regional Office will re-review all cases that the State agency has classified as "not complete" or "not subject to review," so as to monitor the correctness of these classifications.) Under a new system the federal re-review would be a continuing process, instead of occurring only when it appears that a State may qualify for enhanced funding or (more recently) in a rotation that examines each State every second year. The other main aspects of sampling--the definition of the universe to be sampled, the size of the State sample, the procedure by which a State obtains its sample, and the size of the federal re-review sample--may require change.

To view all types of certification errors in dollar terms and to give them more nearly equal weight (or to weight them in accordance with a specific policy), one might employ an extended definition of a State's food stamp caseload for a given month as the basis for its sampling universe. One definition of the extended caseload includes all cases that received benefits in the given month and all cases that would have received benefits, had they not been denied or terminated. (This section considers only negative cases for which the given month is the first such month--that is, the effective month.) Hypothetically, one could draw a random sample from the extended caseload, apply a standard set of exclusions, and then review the remaining cases in the sample to determine whether they involved errors and, if so, the

dollar amount of the error. In practice it seems likely that many States would have difficulty constructing a sampling frame corresponding to this definition of extended caseload. At a minimum, a State would need to retain terminated and denied cases on its master file for a reasonable length of time, and the need to sample terminations and denials for their effective month often causes problems under the current system. Thus, for operational convenience we assume that the sampling process will work separately for active cases and negative actions.

Similarly, this discussion describes the sampling universe from the point of view of a single month primarily for operational reasons. In principle, because the reporting period is a fiscal year, the QC reviews require only a random sample from the appropriate universe for that year. Thus, strictly speaking, the precise details of which month constitutes the effective month for a negative action matter only when the effective month may fall in a different reporting period. Because it would be unreasonable for a State agency to use samples that were not relatively evenly distributed over time, however, the States draw their QC samples on a monthly basis. Although technically this amounts to treating each month as a separate stratum, most discussions of QC sampling and the resulting error rates agree to de-emphasize the distinction between this procedure and simple random sampling from the reporting period as a whole.

Several objectives, possibly competing, may combine to influence the choice of sample size for the States' samples of negative actions. Most of these involve ways in which one might specify the desired precision of the resulting error rate. At the start of the present study, primary attention focused on designing a nonpayment error rate that would have essentially the

of the alternative systems in operational use, the pilot test will need to include a suitable number of federal re-reviews, in addition to the State reviews.

Because the correlation $\hat{\rho}$ controls the contribution of the State and federal sample sizes to the effective sample size, its values in the results from the pilot test may suggest a need to change either or both of those sample sizes. If the correlation is not high enough, the federal sample size n' may play a dominant role in determining the effective sample size. Indeed, for a given value of the correlation $\hat{\rho}$, arbitrarily large increases in the State sample size n cannot make the effective sample size larger than $n'/(1-\hat{\rho}^2)$. It seems reasonable to expect, however, that the correlation between the State and federal nonpayment findings will increase as the reviewers gain experience with a new system. Thus an operational system may well yield a higher $\hat{\rho}^2$ than the pilot test and hence a larger effective sample size. Under the current system the minimum number of negative actions that a State must review per year is a function of its average monthly number of negative actions, as shown in Exhibit 3.1. In turn, the sample size for the federal re-reviews depends on the State's annual sample size (Exhibit 3.2). This approach will probably remain a reasonable way of specifying the State and federal sample sizes, but the numerical constants in Exhibit 3.1 and Exhibit 3.2 (and hence the actual sample sizes) may change.

In terms of sampling procedure, it seems reasonable to assume that the States will continue to use systematic random sampling with a suitable interval and random starting point, with perhaps some stratification by time period or type of action (denial versus termination).

Exhibit 3.1

**MINIMUM NUMBER OF NEGATIVE CASES TO BE
REVIEWED, IN RELATION TO A STATE'S AVERAGE
MONTHLY NUMBER OF NEGATIVE ACTIONS**

<u>Average Monthly Actions (N)</u>	<u>Annual Sample Size (n)</u>
5,000 and over	800
500 to 4,999	$150 + 0.144(N-500)$
Under 500	150

Source: FNS Handbook 311, August 1979, p. 13.

Exhibit 3.2

**MINIMUM NUMBER OF NEGATIVE CASES IN THE FEDERAL
RE-REVIEW SAMPLE, IN RELATION TO THE STATE'S
ANNUAL NEGATIVE CASE SAMPLE SIZE**

<u>State Annual Negative Case Sample Size (n)</u>	<u>Federal Annual Sample Size (n')</u>
800 and over	160
150 to 799	$75 + 0.130(n-150)$
Under 150	75

Source: FNS Handbook 315, December 1985, p. 3-1.

In summary, the features of the sampling process common to the alternative modified systems should be mainly as follows. The States will draw random samples of negative actions for review, and the FNS Regional Offices will draw random subsamples from these for re-review. (The present discussion has not specified the sizes of these samples, because they depend in part on information not yet available.) Although the details of a State's sampling frame for negative actions will depend on how the State maintains its database, each negative case, once selected for review, will be reviewed as of its effective month; the process of assembling the findings from the individual cases into a result for the reporting period will assign that case's finding to its effective month. The definition of the universe will follow closely that under the current system.

Review Procedure. For either the current system or any alternative design, the nature of the review procedure is best described according to the "decision logic" that guides the reviewer's determination of error. For the current system, this logic was described in Chapter Two. If a modified system is to yield a nonpayment error measure that can be interpreted in the same fashion as the payment error measures for active cases, the logic of the negative action review will have to be substantially changed from its current form. Although alternative designs are bound to differ, one can anticipate some common aspects of the review procedure among them.

In any modified system, the reviewer will employ a definition of the "QC-correct" certification amount that, among other things, prescribes the forms of client procedural noncompliance that render the household ineligible for purposes of the negative case review. In addition, of course, any household failing to meet a circumstantial condition of eligibility will also

be considered ineligible. Under these rules, the reviewer will seek to determine whether there is any single procedural or circumstantial basis on which to consider the household ineligible, supported by whatever standard of verification has been adopted. If such a basis for ineligibility can be established, the negative action can be considered correct, and the reviewer may stop the review as soon as the evidence to support the disqualifying condition is obtained.

In the most straightforward scenario the reason cited by the agency for the action--whether procedural or circumstantial--is an acceptable disqualifying condition (for QC purposes), and the documentation in the case record meets the standard of evidence. Such a case review can be completed in a matter of minutes.

However, if the documentation in the case record is insufficient, the reviewer must seek to obtain additional supporting evidence. If such evidence can not be obtained, or if the reason cited by the agency is not an acceptable disqualifying condition, the reviewer must seek to identify other disqualifying conditions. Not until the reviewer can establish that the household met all conditions of eligibility is an error finding justified. If the error finding is justified, the reviewer then computes the error amount as the full QC-correct certification amount. In such instances, the review ends only after all eligibility conditions have been investigated and the certification amount has been computed. This will approach (or even exceed) the length of time now required for an active case review.

Note that this kind of review procedure will leave less to the reviewer's discretion than is currently allowed. For example, the reviewer

would be required to seek documentation beyond the case record, if the case record alone does not document any basis for ineligibility.

One other aspect of the review process is considered here to be common among all modified systems. This is the instruction to the reviewer to record as an administrative deficiency any aspect of required administrative procedure that the agency did not follow. This would include failure to observe the 30-day limit for denials and failure to provide 10-day advance notice to the client. Such matters would not enter into the error determination, but would be important to note for possible follow-up through the Management Evaluation process.

Estimation Method. As summarized in Chapter Two, under the current system the appropriate FNS Regional Office conducts a re-review of a State's negative case reviews (1) when it appears that the State may be eligible for enhanced funding or (2) every second year on a rotating basis. Federal re-review of negative case reviews is not generally an ongoing process, as it is for active case reviews. Because the two-year rotation approach has been introduced only recently, the details of estimation and adjustment of negative case error rates appear to have received much less attention than the corresponding aspects of the payment error rate for active cases.

FNS Handbook 315 provides that the results of the federal re-review shall be used to calculate the State's regressed error rate for negative cases according to the same formula that applies to the numerator of the payment error rate for overpayment or underpayment (when the State has used a simple random sample from its active caseload). Specifically, if

\bar{y}' is the regressed negative case error rate,
 \bar{y} is the error rate from federal findings in the re-review sample,
 \bar{x} is the error rate from the State findings in the re-review sample, and
 \bar{X} is the error rate from the State findings in the full negative case sample,

then \bar{y}' is related to the other quantities via the equation

$$\bar{y}' = \bar{y} + b(\bar{X} - \bar{x}),$$

where

$$b = \frac{\sum x_i y_i - n' \bar{x} \bar{y}}{\sum x_i^2 - n' \bar{x}^2}$$

x_i is the State's finding on re-review case i ,
 y_i is the federal finding on re-review case i , and
 n' is the number of completed federal sample cases.

FNS Handbook 315 does not include an example of the application of this procedure to the negative case error rate, nor does it say what numerical values are to be used for x_i and y_i . The statement that the means \bar{x} , \bar{X} , and \bar{y} are case error rates (i.e., the ratio of the number of incorrect denials and terminations in the sample to the total number of completed cases in the sample), however, implies that x_i takes the value 1 if the denial or termination is erroneous and the value 0 if it is correct, and similarly for y_i . Thus the observed points (x_i, y_i) may take only four possible values: (0,0), (0,1), (1,0), and (1,1).

If, however, a modified negative case review yields a dollar nonpayment amount as its finding, then the application of the regression

formula to the federal and State findings in the re-review sample may parallel its role in the adjustment of payment error rates for active cases. The data x_i and y_i will then take the same form as the overpayment amounts or underpayment amounts. Because this procedure has not previously been applied to nonpayment errors, it would be helpful to assemble some suitable populations of findings from reviews and re-reviews of negative cases in the pilot test and use them as the basis for simulation studies. As far as we are aware, such studies have been carried out only for estimates of the overpayment error rate. Once actual data on nonpayment amounts are available, it should be possible to obtain parallel results.

In the meantime, comparability with the current system (especially the payment error rate) offers a reasonable argument for applying the regression procedure to a new nonpayment error rate. This is what we believe the pilot test should do.

In addition, the current system incorporates an adjustment for a State's failure to complete a sufficient number of reviews. If a State completes fewer reviews than its minimum required sample size, its regressed error rate is adjusted according to the following formula:

$$C(P) + (1-C)(P+2SD),$$

where

P is its regressed error rate,

C is its completion rate, and

SD is the standard error of the estimated error rate (as estimated from the State sample), calculated from the overpayment or underpayment amounts or from the fraction of negative actions that are in error.

That this adjustment increases the error rate is easier to see from the algebraically equivalent formula

$$P + (1-C)(2SD).$$

Although the goal of providing an incentive for States to complete at least as many reviews as the minimum required sample size is reasonable, there is no statistical reason to use SD (or any other particular quantity) in the adjustment formula. In practice, when we calculated the size of this adjustment to the overpayment error rate for each State in Fiscal Year 1986 (in connection with earlier work), we found it very small (at most 0.14 percent and more commonly only a few hundredths of a percent). The issue of adjusting for noncompletion is thus entirely a policy matter and perhaps not a very important one for active case reviews. In assessing the feasibility of alternative negative action QC systems, however, noncompletion may play a more important role.

In summary, two features of the estimation method will be common to the alternative modified systems. First, the nonpayment error rate will be calculated from the State and federal findings according to the regression formula. Second, the regressed error rate will be adjusted for noncompletion.

CHAPTER FOUR

ALTERNATIVE MEASUREMENT SYSTEMS AND THEIR FEASIBILITY

This chapter develops a series of alternative systems for measuring nonpayment error and discusses their feasibility. The first section presents the criteria by which alternative designs should be evaluated. The second section describes the way in which alternative systems may be specified by making choices on a limited number of central design features and identifies a series of competing options. The third section provides a preliminary assessment of these options and makes recommendations on the selection of alternative systems for inclusion in a pilot test.

4.1 EVALUATION CRITERIA

Comparisons of alternative systems to the current system and to one another should use three primary criteria: measurement comparability, statistical quality, and operational feasibility. These are discussed in turn below, by posing a series of questions and concerns that should be addressed for each alternative system. As will become clear, any preliminary assessment at this time can address only a limited number of these issues. However, the criteria are detailed below in order to set the appropriate context for comparative judgments about alternative systems.

Measurement Comparability. This criterion is to be viewed apart from any questions that may arise from the sampling nature of the collected data or from operational requirements that may hinder implementation. The principal concern here is the "intrinsic" comparability of the nonpayment

error measure to the current measures of payment error. In the particular terms discussed in Chapter Three, the relevant questions are as follows. To what extent is the resulting nonpayment error rate dollar-based, outcome-focused, investigation-determined, and duration-related? Is the nonpayment error rate thus an indicator that could be meaningfully summed with the payment error rate, if desired, to form a composite measure of certification error?

Statistical Quality. Concerns over the statistical properties of the estimated error rate pertain to either the issue of bias or the issue of variability. Bias might be introduced through a number of sources. One relevant concern, for instance, is whether the sampling frame appropriately includes all segments of the reviewable sampling universe. If the improperly excluded cases are a more (or less) error prone segment of the universe, the resulting error measure will be biased. Client nonresponse raises an even greater concern for potential bias. A high rate of nonresponse by itself may not introduce bias, unless the nonrespondents differ systematically from the respondents. Because the lack of information on nonrespondents makes it difficult to establish whether such differences are negligible, it seems desirable to minimize nonresponse so as to reduce the risk of bias.

The issue of statistical variability is largely a matter of sample size, in conjunction with the underlying randomness of the amounts to be measured. Whether the measurement system will yield an error rate with acceptable precision will depend upon the size of the State and federal samples and upon the extent of differences between State and federal findings.

Operational Feasibility. This is the evaluation criterion that will be most directly addressed in the pilot test. Operational concerns include administrative cost, data requirements, and client burden.

The administrative cost of any modified system is most importantly a function of the staff time required by QC reviewers, supervisors, and other agency personnel to arrange and conduct the negative case reviews. This includes the time spent to draw the sample and assign cases to reviewers, to locate the case files, to travel to the local offices, to inspect the case files, to contact clients or collateral sources, and to record the error findings. The relevant question is whether the average time spent per review is within an acceptable range.

The data requirements pertain most importantly to the construction of the sampling frame. The following questions arise. Do States have the kinds of administrative data required to include reviewable actions in the sampling frame and to exclude nonreviewable ones? To the extent that one may wish to use automated data sources for purposes of verification, do States have access to such sources? Also, is it feasible to obtain information from collateral sources, given the possible need for the client to authorize any release of information from such sources?

The issue of client burden is addressed in part through the concern over noncompletion rates and statistical quality. In addition, a review process that is burdensome to clients will also impose higher administrative costs, as higher nonresponse requires that more cases be drawn in order to meet any prescribed sample size. However, even if client nonresponse is low, questions about the intrusiveness of the review process remain. Does the review process respect the rights of privacy of the client, given that the household is not participating in the program?

General Observations about Assessing Feasibility. As should be clear from the illustrative questions and concerns raised above, the criteria

of statistical quality and operational feasibility must be addressed on empirical grounds. However, such important issues as client noncooperation are not easily addressed using information collected under the current QC system for negative actions or active cases.* Moreover, without any apparent threshold level above which the noncompletion rate could be considered problematic, there would be no compelling grounds to exclude alternative systems from further consideration strictly on the basis of preliminary evidence, unless available information can obviously establish a system as operationally infeasible.

In contrast, the criterion of measurement comparability can be applied on an a priori basis, because such issues pertain to the intrinsic design of any alternative system. It is thus possible at this point to make comparative assessments, focusing on the relative merits of one system versus another based on their distinguishing design features. The approach adopted here is to specify a series of alternative systems that span a wide range of basic approaches to error measurement and then seek to establish whether any should clearly be excluded on an a priori basis, allowing the pilot test to establish the evidence on which to address operational concerns.

The three evaluation criteria mentioned above pertain to the objective features of different approaches to measuring error. If any alternative system is to be considered as a federal means of evaluating State

*As one possible approach to the issue of client nonresponse among nonparticipating households, we considered examining the extent of noncooperation experienced in active case reviews when, by the time the review is undertaken, the household is no longer participating in the program as a result of a recent termination or expiration. However, during the site visits conducted for this study, we found that States do not maintain the data necessary to compute noncompletion rates for such cases.

administrative performance--with possible financial consequences attached to the measured error rate--a broader set of judgmental concerns also arises. Does the system hold States appropriately accountable for the implementation of program policies and procedures, as mandated in federal statute and regulation? Is error defined in such a way that the respective program obligations of the agency and the client are given proper regard? In judging alternative systems, it is important to consider whether the desire to achieve measurement comparability may suggest modifications that are seemingly at odds with the overriding concern that administrative incentives upon State agencies are appropriately cast. For example, because the specifics of error measurement may importantly influence administrative behavior, especially when fiscal liabilities are at issue, one should seek to ensure that the QC system does not weaken the observance of mandated procedural requirements, whether these exist (upon agencies) to safeguard clients and afford due process or (upon clients) to enable agencies to appropriately determine household eligibility. Clearly, any alternative systems to be included in the pilot test should be acceptable on these policy-related grounds.

4.2 ALTERNATIVE DESIGNS

To reiterate from Chapter Three, the primary design considerations in proposing alternative measurement systems are as follows:

in defining nonpayment error, what forms of client procedural noncompliance will cause the household to be considered procedurally ineligible, and thus cause the negative action to be considered correct (or perhaps not even subject to review)?

what standards of verification will the reviewer have to meet, in order to establish that a household is either procedurally or circumstantially ineligible?

by what means will the measured nonpayment error rate account for the duration of a negative action error, once it occurs?

These three issues--procedural compliance, verification standards, and error duration--are each addressed below. This chapter specifies several different ways of treating each of these three issues and then identifies a series of alternative systems, each representing a different combination of features along these three dimensions. In many other respects, the sampling, review, and estimation procedures of alternative systems will not differ, as discussed at the end of Chapter Three. That is, the objective of measurement comparability between payment error and nonpayment error logically calls for every alternative system to have some basic characteristics. Although these standard features will distinguish any alternative design from the current system, such features will not influence the relative feasibility of alternative designs. Because the focus here is a comparative assessment of alternative systems, this chapter addresses the important features that will distinguish one alternative system from another.

Procedural Compliance. This issue pertains to the way in which matters of client procedural noncompliance are treated in deciding both whether a case is subject to review and whether the action--if reviewable--is correct. The "current treatment" of this issue has two aspects. First, some forms of client procedural noncompliance (such as failure to apply for recertification at the end of an assigned certification period) render a case not subject to review at all. Second, a reviewable negative action is considered correct if it can be established that the client failed to meet any procedural requirement of eligibility. (Recall from Chapter Three that alternative systems will all disregard any issue of agency procedural noncompliance, so as to focus on the correctness of the certification outcome.)

In an active case review, a client's failure to comply with any procedural requirement does not render the household ineligible, except when the client has refused to supply a Social Security number, to comply with work registration or job search requirements, or to submit a monthly report. For example, if a client inadvertently misses the filing deadline for its monthly report, but the agency still continues assistance, the active case will be found correct if it turns out that the benefit corresponds properly to the household's circumstances. In effect, the agency is forgiven for not terminating the case, as long as the household is otherwise eligible and properly paid.

The measurement of negative action error could take several alternative approaches to client procedural compliance. One is the current treatment, whereby client failure to meet any procedural condition of eligibility renders ineligible the entire household (or perhaps only a household member). Under this approach, if the household is found procedurally ineligible, the action is considered correct, and the review ends. For instance, if an initial applicant fails to provide verification requested by the caseworker, this justifies a denial, and the reviewer need not investigate the household's circumstantial eligibility.

An alternative approach--termed here the "modified treatment"--would require that the QC reviewer investigate to some degree the circumstantial eligibility of any household that was denied or terminated for a procedural reason. Such an expanded review process would provide information on the extent to which procedural difficulties inhibit program participation by households that are otherwise eligible for benefits. Because such a treatment would clearly impose administrative demands well beyond the current system, it is important to understand why such a view warrants consideration.

The principle of accountability embodied in the active case QC system is that the State is responsible for assuring that the issuance amount computed for each certified household corresponds correctly to the household's circumstances. If the certification amount is not correct, the case is considered in error, even if the agency acted appropriately in response to the client's behavior, taking into account all available case information. Thus, an error is recorded when client misreporting causes the incorrect certification--even in situations of client fraud. The logic here is that the correctness of client-reported information is subject to the agency's control, through improved verification procedures at intake and recertification, periodic computer matching, monthly reporting, and other such measures.

Applying this concept of accountability to negative cases, one would hold the agency responsible for assuring that the (zero) certification amount computed for each negative case corresponds correctly to the household's circumstances--i.e., that the household is circumstantially ineligible. Thus, any negative case found circumstantially eligible would be considered in error, even if the agency had properly taken action to deny or terminate assistance because of the client's failure to meet a procedural condition of eligibility.

Under this modified treatment, households such as those terminated for failure to file a monthly report or those denied for failure to provide verification would be considered in error if they were found to be circumstantially eligible for assistance. The logic behind this would be that the administrative behavior of State and local agencies--through the design and implementation of procedural requirements--importantly influences whether circumstantially eligible clients are able to participate in the program.

This is not to suggest that agencies are deliberately restrictive. Rather, this simply acknowledges that procedural requirements designed to exclude

undesirable, if unavoidable, consequence of excluding some households that are circumstantially eligible.

In the context of the QC system, such concerns can be addressed only if the client's procedural failure is disregarded in determining the household's eligibility. The reviewer would thus seek to establish whether a procedurally denied or terminated household was circumstantially eligible for assistance. If so, the case would be considered in error, perhaps coded separately as a "client error."

This modified treatment would have significant implications for the level of reviewer effort required in conducting negative case reviews. Such an approach would entail some degree of circumstantial review among cases whose negative action occurred for a procedural reason. As shown in Exhibit 4.1, about one-half of currently reviewed actions are procedurally related. Such actions are now often quickly disposed, as the case record will typically document the client's procedural noncompliance. Unless the case record also

Exhibit 4.1

COMPLETED NEGATIVE CASE REVIEWS,
BY REASON FOR DENIAL OR TERMINATION,
SELECTED STATES, FISCAL YEAR 1987

	<u>Connecticut^a</u>	<u>Illinois</u>	<u>Indiana</u>	<u>Michigan</u>	<u>Minnesota</u>	<u>Ohio</u>	<u>Wisconsin</u>
	Percentage distribution (%)						
<u>Circumstantial reasons</u>							
Resident of institution unauthorized by FNS	1	*	1	1	2	1	*
Outside of project area	4	2	8	3	12	8	8
Ineligible student	*	1	*	1	*	1	*
Ineligible boarder	1	1	*	1	1	*	1
Exceeds resource standard	2	1	3	2	3	3	3
Net monthly income exceeds maximum allowance	3	2	4	5	5	3	5
Gross monthly income exceeds maximum allowance	19	7	13	9	15	14	24
PA termination/denial	<u>15</u>	<u>20</u>	<u>1</u>	<u>*</u>	<u>1</u>	<u>4</u>	<u>*</u>
Subtotal	45	34	30	22	39	34	41

-Continued-

Exhibit 4.1
(continued)

**COMPLETED NEGATIVE CASE REVIEWS,
BY REASON FOR DENIAL OR TERMINATION,
SELECTED STATES, FISCAL YEAR 1987**

	<u>Connecticut^a</u>	<u>Illinois</u>	<u>Indiana</u>	<u>Michigan</u>	<u>Minnesota</u>	<u>Ohio</u>	<u>Wisconsin</u>
	Percentage distribution (%)						
<u>Procedural reasons</u>							
Refusal to cooperate	*	1	1	2	1	1	1
Missed two scheduled inter- views without good cause	7	8	16	*	3	3	1
Failed to provide verification	22	17	25	20	14	19	38
Failed to comply, without good cause, with work registration/job search/ voluntary quit requirements	1	3	1	3	4	1	3
Agency-caused delays	*	*	*	*	3	*	*
Voluntary withdrawal after certification	8	4	16	9	8	11	1
Failure to submit/complete monthly report	<u>1</u>	<u>7</u>	<u>4</u>	<u>6</u>	<u>23</u>	<u>18</u>	<u>2</u>
Subtotal	39	40	63	40	56	53	46
<u>Other unspecified reasons</u>	<u>14</u>	<u>25</u>	<u>10</u>	<u>36</u>	<u>5</u>	<u>13</u>	<u>14</u>
Total**	100	100	100	100	100	100	100

*Less than 0.5%

**May not add because of rounding.

NOTE: Each of the following reasons applies to less than 0.5 percent of negative actions in every State and is thus not shown: ineligible alien, ineligible striker, transfer of resources, intentional program violation, and refusal to supply Social Security number.

^aData are for October 1987 - March 1988.

If it is deemed necessary to examine negative actions resulting from client procedural noncompliance, such an approach would logically call for including in the reviewable universe one major case category now not subject to review--cases closed at expiration of their assigned certification period. Such a change would remove the distinction now made between those cases whose certification expires at the originally-scheduled end of the assigned certification period (now not subject to review) and those whose certification expires at the end of a shortened certification period (now subject to review). This might substantially alter the composition of the reviewable universe in ways that may increase the average time necessary to complete a review. Available data from Connecticut indicate that cases with expired certification would comprise about one-half of an expanded universe.

So as to establish fully the logical implications of the modified treatment, this approach is construed here as requiring the inclusion of cases closed due to an expired certification. This would clearly be a dramatic departure from the current negative action QC system. However, to the extent that the need to appear for recertification is a procedural requirement that may inhibit program participation, cases closed due to expired certification arguably constitute a category of households that should not be distinguished from others failing to meet a procedural condition of eligibility.

Exhibit 4.2 summarizes the two approaches to the issue of procedural compliance that are described above.

Verification Standards. As with the issue of procedural compliance, one can establish two limiting approaches--"current" and "modified"--with respect to standards of verification. The current negative case review applies a relatively weak standard of supporting evidence. That is,

Exhibit 4.2

ALTERNATIVE APPROACHES
TO PROCEDURAL COMPLIANCE

	<u>Negative cases requiring some degree of circumstantial review</u>
Current treatment	Negative cases that cannot be documented as procedurally ineligible
Modified treatment	All negative cases, including (as an addition to the reviewable universe) cases closed at expiration of their assigned certification period

documentation in the case record may be sufficient, without any need for client or collateral contact, on matters of both procedural and circumstantial eligibility. In addition, client statements are not subject to any verification. These standards, perhaps clarified to ensure uniform implementation, could serve as a "current treatment" approach to this issue in any modified system.

Correspondingly, the current standards of verification that apply in the active case review can serve as the basis for a "modified treatment." That is, in order to establish the correctness of the negative action by determining the household to be ineligible, the reviewer would have to meet the standard of verification that now applies for that item of eligibility in an active case review. For example, if the household was denied for having excess resources, the reviewer could not justify the action on this basis without meeting the standard of evidence that must be met in establishing the level of resources for an active case.

On all items of circumstantial eligibility, standards of verification are explicitly stated for active case reviews in the QC Review Handbook (FNS Handbook 310). On items of procedural eligibility where no explicit standard applies in the active case review, the current documentation standard for negative cases would be applied.

Exhibit 4.3 indicates the definitions for the two proposed approaches, current treatment and modified treatment, to the issue of verification standards.

Error Duration. For reasons discussed in Chapter Three, one can not pose a treatment for the pilot test that would be fully comparable to the

Exhibit 4.3

**ALTERNATIVE APPROACHES
TO VERIFICATION STANDARDS**

Standards of verification for items of
procedural and circumstantial eligibility

Current treatment

Standards of documentation now specified
for negative case reviews in Chapter 13
of the Food Stamp Program Quality Control
Review Handbook (see Appendix A)

Modified treatment

Standards of documentation and verifica-
tion specified for active case reviews in
Chapters 5 through 11 of the Food Stamp
Program Quality Control Review Handbook
(or as under current treatment, for those
issues of procedural eligibility on which
no standards of evidence are specified
for active case reviews)

active case QC system. Two alternative approaches are again presented here, the current treatment and a modified treatment.

The current treatment of error duration is simply to examine the correctness of the certification in the effective month of the negative action--i.e., the first month of certification that is affected by the agency's determination. For denials at initial application, an error is effectively considered to last from the date of application through the end of the month of application. The error duration is thus typically less than one month, and the associated error amount would be a pro-rated amount.

For all other reviewable actions--denials at recertification, terminations, or closures at expiration of a shortened certification period--an error typically lasts for the full extent of the effective month, beginning on the first day of the first month of nonparticipation attributable to the action. The current treatment would thus effectively call for the associated error amount to be a full-month benefit. Exceptions to this occur when the household reapplies during the effective month. The period of error would end upon the date of reapplication, and the associated error amount would be a pro-rated figure.

The proposed modified treatment for error duration corresponds to the delayed-review approach discussed in Chapter Three. Actions would be reviewed for the presence of error over a period of fixed and limited duration. The length of this interval is chosen here to be three months. Under this approach, the negative case review would first establish whether the action was in error. If so, the error period subject to measurement would extend through the end of the third effective month of the action. The associated error duration could thus be as long as three months, if the

household neither reapplied nor became circumstantially ineligible during this period.

As also discussed in Chapter Three, the issue of error duration could also be addressed through various imputation approaches. Under such alternatives, the duration would not be measured on a case-specific basis, but would be approximated on the basis of relevant empirical evidence on caseload/household dynamics. Although such approaches seem worth further consideration, such analysis should proceed outside the scope of any pilot test. For this reason, with the focus of this report on examining the appropriateness of alternative error measurement systems for inclusion in a pilot test, an imputation variant is not proposed.

Exhibit 4.4 indicates the two proposed alternative approaches, current treatment and modified treatment, to the issue of error duration.

Specification of alternative measurement systems. The foregoing discussion has identified a series of approaches to the central design features of a modified system for measuring nonpayment error. To specify a proposed system, one must select an approach to each of the three major issues. The two alternative approaches to each issue combine--in principle, at least--to yield a total of eight possible alternative measurement systems. These alternative systems are listed and numbered as "Options" in Exhibit 4.5.

Exhibit 4.4

**ALTERNATIVE APPROACHES
TO ERROR DURATION**

Length of the period during which the
amount of nonpayment error would be
measured for actions found to be in error

Current treatment

Through the end of the first effective
month of the negative action

Modified treatment

Through the end of the third effective
month of the negative action

Exhibit 4.5

ALTERNATIVE MEASUREMENT SYSTEMS

<u>Option</u>	<u>Treatment with respect to:</u>		
	<u>Procedural compliance</u>	<u>Verification standards</u>	<u>Error duration</u>
1	Current	Current	Current
2	Current	Current	Modified
3	Current	Modified	Current
4	Current	Modified	Modified
5	Modified	Current	Current
6	Modified	Current	Modified
7	Modified	Modified	Current
8	Modified	Modified	Modified

4.3 PRELIMINARY FEASIBILITY ASSESSMENT

Although Option 1 on the list corresponds to the current treatment on each of the three central design issues, this system does not entirely correspond to the current negative action QC system. For instance, recall from the end of Chapter Three that all alternative designs share some aspects of the review process that differ from the current system. For instance, the need to establish the dollar amount of any error will require a benefit computation for error cases. This establishes the need for more reviewer effort under Option 1 than under the current system.

Option 1 can be viewed as the alternative that minimizes the amount of additional reviewer effort required beyond that in the current system. Note, however, that even this increment may be substantial. For example, cases that are now found in error for reasons of agency procedural noncompliance--e.g., a denial made before the end of the 30-day period--will require investigation of client procedural compliance and, potentially, household circumstantial eligibility. Because the case record on a denied application may contain very limited information--perhaps only the application form itself--an otherwise brief desk review may become a time-consuming field investigation. In addition, the concerns pertaining to statistical precision may necessitate an increase in the size of negative case samples.

The option that would attain the greatest degree of comparability between measures of nonpayment error and payment error is Option 8. As indicated earlier, this option not only requires some investigation of household circumstantial eligibility for every reviewable action, but also expands the reviewable universe of negative actions to include cases closed at expiration of their assigned certification period. In addition, Option 8

adopts the verification standards now used in active case reviews for items of circumstantial eligibility; it also incorporates the three-month approach to error duration.

Option 8 raises a host of conceptual and pragmatic concerns, pertaining most notably to its "modified treatment" of client procedural compliance. To the extent that Options 5 through 7 also adopt this feature, the same concerns can be raised for these other alternative systems. One basic issue raised by these options is whether they define too broadly the scope of the negative action QC system, as a means of establishing accountability for State administrative performance. The policy question is as follows: to what extent should the QC system address concerns of "program access" or "quality of service," as distinct from the accuracy of agency certification decisions?

Options 5 through 8 each would define very broadly the obligations of the agency in ensuring that a household entitled to a benefit in fact receives its entitlement. In doing so, these options define very narrowly the responsibility that clients must bear in complying with basic procedural requirements for participation. Each option would thus hold agencies accountable for situations in which a household, although circumstantially eligible for assistance, failed to receive benefits because of its failure to meet procedural conditions of eligibility.

Is the QC system an appropriate vehicle for addressing the concern that procedural requirements may impede program participation? Other vehicles, such as the Management Evaluation process, are available to monitor administrative operations and ensure that agency practices are not unduly restrictive. Moreover, if the QC system were to measure nonpayment error in a

way that disregards client procedural requirements, some of which are federally mandated, States would be placed in a position of being vulnerable to an error finding, even if the agency takes the appropriate action when the client fails to comply with a procedural requirement of participation.

Even if one considers it appropriate for the QC system to address these broader issues, there are other difficulties in operationalizing such measurement approaches as Options 5 through 8. For example, if a household simply wishes to "opt out" of the program, and knowingly disqualifies itself by not complying with a procedural requirement for initial benefits or continued assistance, the agency should seemingly not be held accountable for failure to provide a benefit. This argument would apply in such instances as when the household deliberately fails to appear for recertification, and the case is closed at expiration of the certification period.

In such situations of procedural noncompliance, one would seemingly need to determine whether the household indeed wished to receive assistance at the time of its denial, termination, or expiration. In principle, one would then exclude from review those instances in which the household's nonparticipation is purely voluntary, based upon a client statement. However, it seems inconceivable that an ongoing system of performance measurement could rely on subjective judgments of this kind to be rendered by clients.

Options 5 through 8 also raise serious concerns of operational feasibility and statistical quality. By requiring circumstantial review for all cases, the burdens upon the reviewer and the client are substantially increased from current levels. This is especially true under those options that adopt the standards of verification now used in active case reviews (Options 7 and 8). If the necessary number of reviews can be completed under

any of these four systems, it seems inevitable that the administrative costs would be prohibitive. In addition, if the rate of noncompletion is high, as one might expect, there would also be clear concern over potential bias in the measured error rate.

For these various reasons, we recommend that Options 5 through 8 not be included in the pilot test. The remaining options, 1 through 4, are defensible approaches to error measurement and do not present any obvious operational or statistical concerns that should a priori preclude their consideration. These four recommended options constitute distinct strategies for error measurement, each yielding a nonpayment error rate that achieves a different degree of comparability to the current payment error rate. The pilot test will enable empirically derived judgments on the operational feasibility and statistical quality of such alternative systems.

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APPENDIX A

**FNS HANDBOOK 310, THE FOOD STAMP PROGRAM QUALITY
CONTROL REVIEW HANDBOOK, CHAPTER 13--NEGATIVE CASE
RECORD REVIEWS**

CHAPTER 13 NEGATIVE CASE RECORD REVIEWS

1310 PROCEDURES FOR CASE RECORD REVIEWS

This section provides guidance on conducting reviews of the household's case record including documentation of verification contained in the case record and obtaining verification from collateral contacts.

1320 CASES NOT SUBJECT TO REVIEW

Negative case means a household which was denied or whose benefits were terminated effective for the sample month. By termination we mean an interruption of benefits that is the result of deliberate State agency action. A terminated household that continued to receive benefits pending a fair hearing is subject to review as a negative case.

Certain types of negative cases are to be excluded from the QC sample. These are normally eliminated in the sampling process; however, if such cases reach the reviewer, they shall be eliminated at that point and reported as not subject to review on the Negative Quality Control Review Schedule (Item D), Form FNS-245. Such cases include:

- A Households that have withdrawn an application prior to the agency's determination;
- B Households that, at the time of the review, are under investigation for intentional Food Stamp Program violation;
- C Households that have their case closed due to expiration of the certification period;
- D Households dropped as a result of correction for oversampling;
- E Households in which a decision to deny or terminate the case was made and subsequently reversed in time for initial benefits to be issued within the normal processing standard or in the case of terminations, no break in participation occurred. An interruption of benefits due to deliberate State agency action to terminate the household would result in the case being subject to review;
- F Households which have been sent a notice of pending status but were not actually denied participation;
- G Cases listed in error (active case in negative frame);
- H Households denied food stamps under a disaster certification authorized by FNS;

- I Households terminated for failure to file a complete monthly report, but reinstated when the household subsequently filed the complete report;
- J Households terminated (i.e., notice of denial/adverse action, notice of change to data management unit), but the household continued to receive benefits for reasons other than continuation of benefits pending a fair hearing; and
- K Households that experience an interruption in benefits due to computer malfunction or error but not a result of a deliberate action by the State agency to terminate or suspend benefits.

A case may be dropped from the sample when the reviewer becomes aware that the case is under active investigation for an intentional Food Stamp Program violation (IPV); the household is scheduled for an IPV investigation sometime during the next five months; the household has a pending IPV hearing; or the case is not subject to review for any other reason listed above. The reason for dropping the case must be reported under Section III, Explanation of Review Findings, on the Review Schedule.

1330

REVIEW DATE

The review date for negative cases is the date of the State agency's decision to deny or terminate program benefits. In determining the date of the State agency's decision, the reviewer shall use the earliest date which can be documented in the casefile. For instance, if the earliest documentation is a dated scrap of paper recording information received over the telephone and the State agency's subsequent action to deny or terminate was based solely on this information, the reviewer shall cite this date as the review date. If the casefile does not contain any documentation which would enable the reviewer to establish the review date, the reviewer may examine documents located outside the case record, such as notices of change or notices of adverse action.

Negative cases shall not be dropped because the review date does not fall within the sample month.

EXAMPLES

On July 25 (Friday) the participant telephoned the eligibility worker to report that she just received a lump-sum insurance settlement of \$10,000. The worker documents this change on the day of the call but doesn't issue a Notice of Adverse Action until July 28 (Monday). The termination will be effective on September 1 with the 10-day period to request a fair hearing ending on August 7. The decision to terminate was based on the documented telephone call so the review date will be July 25.

A household applied for food stamps on July 2 and was interviewed on July 7. The eligibility worker determined at the interview that the household had excessive resources and the applicant was advised that the application would be denied. However, the applicant wasn't issued a Notice of Denial until July 15. The review date will be July 7 since that is the earliest date which can be documented in the file.

A casefile contains a Notice of Adverse Action (NOAA) issued on July 26. The NOAA references a change report received on July 23. The termination is based on the information submitted in the change report. The reviewer cannot find the change report in the file. The review date will be July 26, the date of the NOAA.

1340

CASE RECORD REVIEW

The reviewer shall examine the household case record and verify through documentation in the file whether the reason given for the denial or termination is correct. If it is determined that the reason is incorrect, the reviewer shall determine whether the household was ineligible at the time of the decision to deny or terminate for any other reason documented in the casefile.

When the case record alone provides acceptable documentation that the decision to deny or terminate was correct, the review can be considered completed.

When the case record alone does not prove ineligibility, the decision to deny or terminate would be considered incorrect, unless the reviewer can otherwise verify the correctness of the decision. The reviewer may attempt to prove the household's ineligibility by telephoning the household and/or a collateral contact(s) and verifying the element(s) of eligibility in question.

As with active cases, the reviewer is not limited to the collateral contacts designated by the household. If the reviewer does not attempt to verify the element(s) of eligibility in question, the decision to deny or terminate would be incorrect.

1341

Elements of the Case Record Review

1341.1

Purpose of Case Record Reviews. The purpose of the case

1341.3 Content of the Case Record Review. The case record review shall include all information applicable to the case AORD, including the application and the worksheet in effect AORD. The case record review process includes: 1) a review of the household case record; 2) an error analysis; and 3) the reporting of the review findings.

1342 Completion of Case Record Reviews

During the review of the case record, the reviewer shall:

- A Complete the household case record sections and document the reasons for denial or termination on the Negative Quality Control Review Schedule, Form FNS-245; and
- B List collateral sources of information for future use, if necessary.

1343 Acceptable Documentation

The case record may contain documents or statements which the reviewer may use as verification if the documentation is adequate and it applies to the appropriate time period. Examples of documents or statements which can be considered acceptable documentation are certified or reproduced copies of official documents or reports, information on a signed application, check stubs, receipts or full recording by a person who has secured information directly from public or other records. To be acceptable, however, any such documentation must clearly demonstrate ineligibility.

The reviewer need only verify information used to determine the correctness of the decision to deny or terminate the household. If the agency's reason given for the action is correct, the reviewer need only verify information for that one item. However, if the agency is incorrect and the reviewer goes further and determines that the household is ineligible for some other reason in the case record, that information must also be verified. In order to determine whether a household is ineligible, the reviewer may have to verify a single element of eligibility or all elements, depending upon the circumstances of each case. Documentation in the case record must be sufficient to support the reviewer's decision on the status of the case.

The first source of documentation in a negative case record may be a written statement made by the participant. Statements made by participants which are documented in the casefile need not be verified. For example, if a household has been found ineligible because of its resources and the household's application reports resources that exceed the amount allowed, the reviewer need not verify the statement with the household.

1344 Collateral Contacts

The reviewer may obtain verification from collateral contacts where adequate verification is not available in the case record. The procedures in Sections 424.7(B) and 430 shall be used in establishing collateral contacts. The reviewer shall use the most reliable second party verification available (e.g., banks, payroll listings, etc.) and shall thoroughly document and/or attach all verification obtained. If any information obtained by the reviewer differs from that given by the participant, the reviewer shall resolve the differences. The manner in which the conflicting information is resolved shall include recontacting the participant. If the participant cannot be reached, the reviewer shall accept the second party verification as correct. The reviewer shall document the attempts to contact the participant.

1350 ERROR ANALYSIS

If the reviewer is able to verify through documentation in the case record or a collateral contact that a household was correctly denied participation or terminated from the program the case shall be coded as correct. When the household is not ineligible because of the State agency's reason for the denial or termination, the reviewer must go further to determine whether or not the household is ineligible for any other reason documented in the case record. When the household is not ineligible because of the State agency's reason, and the reviewer goes further and finds another reason that the household is ineligible, there is a deficiency. This deficiency shall not be considered a variance for purposes of QC and need not be reported. However, if the reviewer is unable to verify the correctness of the State agency's decision to deny or terminate a household's participation through such documentation or collateral contact, the case shall be coded incorrect.

EXAMPLES

The State agency denied a household participation in the program because of excess income. The reviewer is able to verify through documentation in case record or collateral contact that the household's income exceeds its income limitation. The case is correct and the review is terminated.

The State agency terminates the household for failure without good cause to comply with job search requirements. The reviewer is unable to verify the correctness of the State agency's decision to terminate the household's participation through documentation in the case record or collateral contact; the case is incorrect.

1351 Variances

When the decision to deny or terminate a case is found to be incorrect, a variance exists in the case. The decision is incorrect if the reviewer

cannot document the caseworker's decision or any other reason to deny or terminate the case. All identified variances in the case shall be reflected in Item "H" of the Form FNS-245.

1352 Other Deficiencies

When a case is found to be ineligible for a reason other than the one used by the agency in denying or terminating a household, this is a deficiency, but not a variance for QC purposes. It is not required to be reported on the Form FNS-245. However, State agencies may continue to record this information. Information concerning other deficiencies is gathered through the management evaluation review process.

1360 REPORTING FINDINGS

When a negative case is incorrect, the reviewer shall report the information to the State agency for appropriate action on an individual case basis, such as, certifying the household if it is currently eligible and computing the coupon allotment for restoration of lost benefits. The reviewer shall also code and record the error determination in the appropriate section of the Form FNS-245.

1370 DISPOSITION OF CASE REVIEWS

Each case selected in the sample of negative cases shall be accounted for by classifying it as completed, not completed, or not subject to review on the Form FNS-245 (see Exhibit A). Cases which are not subject to review, if they have not been eliminated in the sampling process, shall be eliminated during the review process.

1371 Cases Not Completed

Negative cases shall only be reported as not completed if the reviewer, after all reasonable efforts, is unable to locate the case record.

If the reviewer decides to obtain verification or a household release to contact a collateral contact (as discussed in Section 424.7(B)) and is unable to locate the household, the reviewer would code the decision as incorrect (the case record does not support the State agency's action).

Negative cases shall not be reported as not completed solely because the State agency was unable to process the case review in time for it to be reported in accordance with the disposition timeframes (1343) in Section 190 unless prior approval is obtained from FNS. The reviewer shall fully document the decision to code the case as "review not processed" (Code 04), including all steps taken to attempt to complete the case. This information shall be reported to the State agency for appropriate action on an individual case basis.

FORM APPROVED OMB NO. 584-0034

U.S. DEPARTMENT OF AGRICULTURE - FOOD AND NUTRITION SERVICE

NEGATIVE QUALITY CONTROL REVIEW SCHEDULE

FNS HANDBOOK 310

I. IDENTIFYING INFORMATION

1. CASE NAME (Last, First, M.I.)		3. TELEPHONE NUMBER	
2. MAILING ADDRESS		4. ACTUAL ADDRESS/DIRECTIONS TO LOCATE	
5. CASE NUMBER	7. REVIEW DATE	9. DATE ASSIGNED	11. CASE COMPLETED
6. PROJECT AREA	8. REVIEWER	10. DATE OF HOME VISIT	12. SUPERVISOR
13. DATE CLEARED			

CARD NO. 1

II. REVIEW FINDINGS

A. STATE AND LOCAL AGENCY FIPS CODE		B. QC REVIEW NUMBER		C. SAMPLE MONTH AND YEAR	
<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> </div> <div style="display: flex; justify-content: space-around; font-size: 8px;"> 12345 </div>		<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> </div> <div style="display: flex; justify-content: space-around; font-size: 8px;"> 678910 </div>		<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px;"></div> </div> <div style="display: flex; justify-content: space-around; font-size: 8px;"> 11121314 </div>	
D. DISPOSITION OF CASE REVIEW (Enter a code)					
<div style="display: flex; justify-content: space-between;"> <div> 01 REVIEW COMPLETED 02 NOT SUBJECT TO REVIEW </div> <div style="border: 1px solid black; padding: 2px;"> IF CODE 02 THROUGH 04 IS USED DO NOT COMPLETE REMAINDER OF FORM. </div> <div> 03 UNABLE TO LOCATE CASE RECORD 04 REVIEW NOT PROCESSED </div> </div>					

E. NEGATIVE CASES:

1. DENIED APPLICATION
2. TERMINATED CASE

F. REASON FOR DENIAL OR TERMINATION (Enter a code - Table 1)

1819

G. STATUS OF CASE (Enter a code)

1. VALID NEGATIVE CASE
2. INVALID NEGATIVE CASE

20

H. DESCRIPTION OF VARIANCES

(a) ELEMENT
(codes on table 2)

212223

272829

333435

(b) NATURE
(codes on table 2)

242526

303132

363738

III. EXPLANATION OF REVIEW FINDINGS

FORM FNS-245(8-86) previous editions may be used until supply is exhausted.

Instructions for the Completion of
the Negative QC Review Schedule

Part I - Identifying Information

1. Case Name. Enter the name of the head of the household.
2. Mailing Address. Enter the mailing address of the head of household.
3. Telephone Number. Enter the telephone number of the head of household.
4. Actual Address/Directions to Locate. Enter the actual address if different than the mailing address and enter directions to help locate the actual address if available.
5. Case Number. Enter the case number used to identify the food stamp case.
6. Project Area. Enter the name of the project area.
7. Review Date. Enter the review date which is furnished by the State QC office or based on information contained in the household case record.
8. Reviewer. Enter the name of the person conducting the review.
9. Date Assigned. Enter the date (month, day, and year) the case was assigned to the reviewer.
10. Date of the Home Visit. Enter the date (month, day, and year) on which the home visit or personal interview, if not conducted in the home, was held. If a home visit was not required, leave blank.
11. Case Completed. Enter the date (month, day, and year) the review was completed.
12. Supervisor. Enter the name of the reviewer's supervisor.
13. Date Cleared. Enter the date (month, day, and year) the supervisor cleared the reviewed case for statistical processing.

Part II - Review Findings

- Item A - State and Local Agency FIPS Code. Enter the appropriate FIPS codes for State and county equivalents. Alternate coding for county equivalents (last three digits) that are being used for the integrated review schedule (FNS-380-1) can be substituted for FIPS codes.
- Item B - QC Review Number. Enter the serial number assigned to the case (Alphabetic characters must not be used).
- Item C - Sample Month and Year. Enter the month and year (last two digits only) in which the sample month occurs.
- Item D - Disposition of Case Review.
- 01 Review Completed. Enter code 01 if the QC review was completed.
 - 02 Not Subject to Review. Certain cases are not subject to review by the QC Subsystem. Cases which are "Not Subject to Review" are defined and listed in Section 1320 of FNS Handbook 310. If code 02 is used, do not complete remainder of the form.

Review Not Completed. Only under specific circumstances may a case be coded as "not complete".

03 Unable to Locate Case Record. Enter code 03 when the review cannot be completed because the case record cannot be located by the local office or the State agency. Note: Code 03 is the only allowable reason for coding a case "not complete" unless prior FNS approval is obtained.

04 Review Not Processed. Enter code 04 if the review is not processed in time to meet the reporting timeframes. Prior FNS approval is necessary for this code to be used.

If codes 03 or 04 are used, items E through H do not have to be coded.

Item E - Negative Cases. Enter the appropriate code as follows:

Denied Application (Code 1) - Applies to cases in which a request for food coupons is rejected because the State agency determines the applicant ineligible.

Terminated Case (Code 2) - Applies to cases in which the household's certification is terminated before the end of the certification period.

Item F - Reason for Denial or Termination. Code the reason for the denial or termination as noted in the case record or on the Notice of Adverse Action. The codes are provided in Table 1.

Item G - Status of Case. Enter the appropriate code as follows:

Valid Negative Case (Code 1) - Enter code 1 when the reviewer determines that the household was properly denied or terminated from program benefits, or the household could have been determined ineligible for another reason as identified in the casefile.

Invalid Negative Case (Code 2) - Enter code 2 when the reviewer determines that the household was improperly denied or terminated from program benefits, or the reviewer is unable to verify the correctness of the decision to deny or terminate.

Item H - Description of Variances. Refer to Table 2 for appropriate codes.

Part III - Explanation of Review Findings

This section of the form will be used to document the results of the review. The reviewer need only record information used to determine the validity of the reason given for action and, if necessary, information on the status of the case as of the review date. The reviewer may have to simply document a single

element of eligibility or all elements, depending upon the circumstances of each case. Documentation must be sufficient to support the reviewer's decision on the status of the case and the identification of any variances. Space on the form is limited since only essential facts are to be recorded. If space is insufficient, entries can be continued on the back of the form and/or additional sheets can be attached. If a full field investigation is initiated, entailing verification of all program elements, the FNS-380 can be used to record review findings. If this occurs, Part II of the FNS-245 would still be filled out and used for data entry purposes.

TABLE 1

REASON FOR DENIAL OR TERMINATION CODES

<u>Code</u>	<u>Element</u>
01	Resident of institution authorized by FNS
02	Outside of project area
03	Refusal to cooperate
04	Ineligible alien
05	Ineligible student
06	Exceeds resource standard
07	Missed two scheduled interviews without good cause
08	Failed to provide verification
09	Failure to comply, without good cause, with work registration/job search/voluntary quit requirements
10	Net monthly income exceeds maximum allowance
11	Ineligible boarder
12	Transfer of resources
13	Intentional program violation
14	State agency caused delays
15	Voluntary withdrawal after certification
16	Termination/denial due to PA termination/denial
17	Refusal to supply SSN
18	Gross monthly income exceeds maximum allowance
19	Ineligible striker
20	Failure to submit/complete monthly report
99	Other

TABLE 2

DESCRIPTION OF VARIANCES

When coding element and nature codes on the FNS-245, reviewers should use the integrated codes contained in the Integrated Manual for AFDC, Adult, Food Stamp and Medicaid Quality Control Reviews, Appendix 2 (pages 81-90). In addition to those integrated codes, the following codes specific to negative cases will also be used.

910... Application Processing

Improper denial within 30 day period for missing interview(s) (900)

Other (099)

920... Joint PA/FS Processing Reporting

Improper termination/denial when PA was terminated/denied (901)

Benefits improperly terminated due to nonsubmission of monthly report (902)

Other (099)

930... Invalid Negative Decision

Other (099)

(This code to be used in situations not covered by the other existing element codes.)

APPENDIX B

**FNS HANDBOOK 315, THE FEDERAL QUALITY CONTROL
VALIDATION REVIEW HANDBOOK, CHAPTER 3--VALIDATION
REVIEW, NEGATIVE CASES**

CHAPTER 3

VALIDATION REVIEW - NEGATIVE CASES

3000 GENERAL

The Regional Office shall validate a State agency's negative case error rate only when the State agency's payment and underissuance error rates for the review period appear to entitle it to an increased share of administrative funding, i.e., are five percent or less, and its negative case error rate is less than the national weighted mean negative case error rate for the previous fiscal year. The validation shall consist of desk reviews to determine whether the household case record contained sufficient documentation to justify the State agency's QC findings about the correctness of the agency's decision to deny or terminate a household's participation.

3100 SAMPLE SELECTION3110 SAMPLE FRAME

The frame for selecting the sample of negative cases for Federal review is all negative cases for which State agency reviews were completed for the review period. The Regional Office shall also review all cases which the State agency has classified as "not completed" and "not subject to review" to determine whether they have been properly classified. When a Regional Office believes that a State agency may qualify for enhanced funding, it shall advise the State agency to provide the Regional Office with disposition lists of all negative cases or copies of the Form FNS-245, in order to enable the Regional Office to establish a sample frame.

3120 SAMPLE SIZE3121 COMPLETED NEGATIVE CASE SAMPLE SIZE

State Annual Negative Case Sample Size	Federal Annual Sample Size
800 and over	n = 160
150 - 799	n = 75 + 0.130 (N - 150)
Under 150	n = 75

A n is the minimum number of Federal review sample cases which must be selected when conducting a validation review.

B N is the State agency's minimum negative case sample size.

3122 SAMPLE SIZE ADJUSTMENTS

The sample size determinations made above set the minimum number of cases the Regional Office must review. The Regional Office may find it necessary to adjust its sample size to correct for State agency undersampling or oversampling. In the instance where a State fails to complete its required sample size, it may cause the Region's sample to be less than that required. If this situation occurs, the Region need not make any adjustments in its sample as it is the responsibility of the State to complete all of its cases. Any other situations that the Region is aware of and has control over that affects the required Federal review sample size should be accounted for.

3130 SELECTION OF SAMPLE CASES

Once the Federal review sample size has been calculated, the selection of the sample will be done by the Regional Office statistician or other personnel designated by the Regional Office. The provisions of Section 2130 regarding systematic sample selection and cases listed in error also apply here.

3140 DOCUMENTATION

The procedures for documentation of active cases outlined in Section 2140 of this Handbook also apply to negative cases.

3200 CASE REVIEWS

The purpose of the validation process for negative cases is to determine the correctness of the State's findings. In so doing, the Federal reviewer shall determine whether the State QC reviewers:

- A Correctly applied certification policy;
- B Properly and accurately applied QC review procedures; and
- C Accurately recorded results and findings.

3210 SCHEDULING CASE REVIEWS

Once the Region is aware that a State agency may qualify for enhanced funding based on an estimate of its payment and underissuance error rates, the Regional Office should schedule the negative case reviews. The Regional Office may stop doing negative case reviews if it later becomes apparent that the State agency is not going to be eligible for enhanced funding.

All negative case validation reviews shall be completed within 60 calendar days of the date the Regional Office receives the casefiles. As each review is completed, the Regional Office shall return the casefile and the Regional Office findings to the State agency within 7 calendar days. If the Regional Office is unable to complete a case within 60 calendar days, the Regional Office shall document the reasons why and the additional time used in the casefile. The Regional Office should periodically notify the

State agency that there have been delays in completion of cases and transmission of case findings. The Regional Office shall provide quarterly reports to the DAFNP. Each report shall include the number of extensions the reason for each extension, and the additional amount of time it took to complete each case. All validation reviews should be completed by March 14 and the findings reported to the State agency by March 21. Preliminary error rates shall be provided to the National Office by March 21.

3220 CASE ASSIGNMENT

When cases have been identified for the Federal sample, arrangements must be made with the State to provide to the Regional Office the case records and pertinent information contained in the case records or legible copies of that material, as well as legible copies of the FNS-245. The State must provide this material within 10 days of the Regional Office's request.

3230 CONTENT OF THE REVIEW

The Regional Office should concentrate upon the accuracy of the denial or termination decision based upon the QC procedures in effect at the time of the State's review. The Regional Office shall also review cases against the certification policy in force as of each case's QC review date as reflected by the food stamp regulations, policy memoranda, and FNS-approved waivers. Regional Offices will begin reviewing cases following policy clarifications 30 days after the transmittal of the policy memorandum to the State (or 45 days, if so specified in an individual policy memorandum), or when the State implements it, whichever is earlier. If an eligibility worker incorrectly applied a correctly implemented policy, or the State agency implemented the policy incorrectly before the 30/45 day effective date, there would be a QC error. QC policy memos must be implemented no later than the first full sample month 30 days after transmittal of the memo to the State.

3240 CONDUCTING CASE REVIEWS

The Federal reviewer shall conduct a desk review of the State QC review file and case record to determine the correctness of the State's findings. The criteria established in FNS Handbook 310 shall be used to determine if the State review was adequate. If the documentation in the case record and/or QC file is not adequate to justify the State agency's decision that the case is correct, the Regional Office should determine the case to be in error, unless the case should have been coded incomplete.

3250 REVIEW CLEARANCE

A second party review shall be performed on every case (QC case file) to the point where the Regional Office is assured that the review was completed in accordance with the standards in FNS Handbook 310, including the documentation and verification standards.

3260 REVIEW DISPOSITION3261 DISPOSITION OF COMPLETED CASES

Completed case reviews shall be disposed of as follows: Federal finding agrees with State finding; Federal finding agrees with State finding, but deficiencies were noted; or Federal finding disagrees with State finding. The Region's finding shall be used in the regression calculation. Findings shall be provided to the State agency within 7 days of completing the review, via certified mail. Procedural deficiencies should be addressed in sufficient detail to allow the State to respond with appropriate corrective action. Federal disagreements with State findings shall be listed individually and shall provide specific reasons for the disagreement. The report to the State agency shall advise the State agency to request arbitration within 28 calendar days if the State disagrees with the Region's finding. While it is anticipated that most State agencies will comply with the 28-day timeframe for requests, Regional Offices must accept requests whenever they are received, even if the requests are submitted beyond the 28-day timeframe. Given the time periods for reporting error rates in Chapter 7, Regional Offices may need to process late requests more quickly.

The Regional Office has the option of holding an informal conference with the State agency to resolve the dispute. If the Regional Office opts for an informal conference, the State agency should still request arbitration within the 28 calendar days of the Regional Office's report. The Regional Office's finding letter should stipulate this. The informal conference shall be held prior to arbitration. If the disagreement is resolved after the informal conference, the arbitration request shall be cancelled. If not resolved, the arbitrator shall proceed with reviewing the case.

(Arbitration is addressed in further detail in Chapter 5.)

3262 DISPOSITION OF INCOMPLETE CASES

In certain situations, the Federal reviewer may be unable to complete a case. The Regional Office shall notify the State agency that the case is either incomplete or not subject to review, as appropriate. This notification shall be provided within 7 days of the Region's determination that the case was not complete or not subject to review. Any such case shall be dropped from the Federal sample. Further, a case determined incomplete by the Region would be classified as incomplete when calculating the State's completion rate. The State agency shall be provided an opportunity to complete any case determined incomplete. The timeframes in 2262 apply here also. The State agency may also request arbitration of any such finding by the Regional Office.

3270 ASSESSMENT OF STATE CASES NOT SUBJECT TO REVIEW OR NOT COMPLETED

3271 CASES NOT SUBJECT TO REVIEW

All cases which the State agency has classified as "not subject to review" must be examined, using the QC casefile, during each negative validation review to determine whether they should have been reviewed. If any of these cases have been disposed of improperly, the Regional Office shall correct the classification and notify the State agency accordingly. A case that has not been completed shall be handled in accordance with the procedures in 3272. The Regional Office shall make the appropriate adjustments to the State's completion rate and error rate. The State agency may complete or request arbitration of any case for which the Region has changed the findings. The timeframes for completion of any such cases are the same as those in 2272.

3272 CASES NOT COMPLETED

An adjustment of two standard deviations will be made to the State's error rate for all incomplete cases. In addition to imposing this penalty, the Regional Office shall also examine all cases, using the QC casefile, dropped by the State agency as "not completed" to determine whether they were properly disposed of in accordance with the provisions of section 275.13 (e)(1) of the regulations. The Regional Office shall correct any incorrect dispositions and notify the State agency accordingly. If the Region determines that the case did not meet the requirements of Section 275.13(e)(1), the case shall be returned to the State agency for completion. The procedures in 2272 shall be followed for these cases.